An Introduction to Indian Economics

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AN INTRODUCTION TO INDIAN ECONOMICS

CHAPTER I.

INTRODUCTION

DEFINITION AND SCOPE

The Rent Act of 1859.

Indian Economics : what it means.

The term Indian Economics refers to a systematic and scientific study of the principal economic problems of India from the strictly Indian national standpoint. Time was when British politicians and writers thought in terms of the old colonial policy by which India was looked upon as a natural field for exploitation in the interests of her white rulers. But that view is no longer publicly advocated by responsible people even in England. To us, Indians, the subject matter of Indian Economics can have no other meaning than the obvious one that the main problems of Indian economic life must be approached exclusively from the Indian point of view. With this objective in view, we shall not hesitate to criticize British policy, whether in the past or at present, which can be proved to have been, or to be detrimental to India's interests, and we shall not hesitate to advocate measures which might directly militate against British vested interests in India, provided such measures are calculated to advance India's own economic well-being.

Indian Economics : not the history of Indian economic thought.

Though the above is the accepted interpretation of Indian Economics at present, the term was capable of some other alterative interpretations in times past. For instance, Indian Economics was regarded as the history of Indian economic thought from the earliest times. Modern researches, even in their present incomplete stage, have proved that Indian thinkers, in the golden days of ancient and medieval Indian history, did not altogether neglect this branch of Sociology.

Kautilay's Arthashastra, Sukracharya's Nittis and other treatises reveal the high degree of economic thinking developed by Indian savants in ancient days. Similarly, in the medieval age, great economic experiments were carried out by some Moslem rulers. The experiment with market control of Alauddin Khilji as regards the price of corn, cloth, sugar, glue, oil and even cattle and slaves ; the currency experiment of Muhammad Tughlug who tried to introduce a token currency in order to replenish his depleted exchequer ; the reforms of the land-revenue system carried out by Alauddin, Sher Shah and Akbar ; and the various innovations in the system of public finance introduced by a succession of Moslem rulers ;—all testify to the fact that Indian economic thinking did not suffer any paralysis in the long twilight of the dark ages. Finally, in the modern ages, it is not difficult to discern characteristically national interpretations of the fundamental facts of Indian economic life. The khaddar economics of Mahatma Gandhi, for instance, hardly finds its parallel in the economic thinking and economic practice of any other modern country. All these indicate the

existence of a nucleus out of which an Indian school of economic thought can be formulated.

But the time has not yet arrived when any useful purpose might be served by connecting together some of the disconnected strands of Indian economic thought. Moreover, Economics as a science is of very recent growth even in the western countries, and the whole substance of economic thinking has been, and is being rapidly transformed by successive stages of Industrial Revolution. Indian Economics, therefore, at present can not imply the history of Indian Economic thinking.

Indian Economics : not the history of Indian economic evolution.

Another possible interpretation is that Indian Economics might mean the history of Indian economic life. This also must be rejected, first, on the ground of the impracticability of reconstructing a synthetic story of Indian economic evolution with the existing inadequate data ; and secondly, because India's past, like the past of any other modern country, can not, except in a limited degree, give us any sufficient indication as regards her possibilities in the future.

Indian Economics : not the illustration of universal economic principles.

A third possible interpretation is that Indian Economics is nothing but an illustration of universal economic principles with Indian examples. This view got much currency in India in the first three quarters of the nineteenth century. The British rulers, specially, on account of their wholesale acceptance of the doctrines of classical economics, held this view. It was Ranade who first

pointed out the difference between western and Indian environment as a sufficient reason why western economic principles could not at all be applicable in the case of India. In a country like India with teeming millions of rural population bound by all sorts of restrictions like caste, joint family, excessive conservatism, etc. The classical principles of self-interest, etc. can have only a limited validity.

Ranade in his *Essays on Indian Economics* wrote in 1892 :—"With us an average individual man is to a large extent the very antipodes of the economical man. The family and caste are more powerful than the individual in determining his position in life. Custom and state regulations are more powerful than competition, and status more decisive in its influence than contract. Neither capital nor labour is mobile—wages and profits are fixed and not elastic. Similarly, Sir Theodore Morrison wrote in his treatise, "The Industrial organisation of an Indian Province" :—"When we approach the study of economic phenomena of India, we must bear in mind that we are about to deal with a type of industrial organisation which is not the type tacitly assumed in most books upon abstract Economics."

Of course, since the days of Ranade, both India and the science of Economics have undergone a great deal of changes. India has come out of the hard shells of rural self-sufficiency into the vortex of world Economics, and the series of inroads upon the classical school launched by the Socialists, and the Historical School specially have effectively destroyed the old conception of universality of classical dogmas, so that Economics to-day is little more

than an "apparatus of the mind, a technique of thinking which helps its possessor to draw correct conclusions." Thus, from both sides the gulf between Indian and western Economics has been much narrowed. Moreover, as Prof. Brij Narain has said, "If Economics is a study of mankind in the ordinary business of life, a study of the facts of Indian Economic life cannot be expected to reveal the existence of entirely new laws governing the production, exchange, distribution, or consumption of wealth. No such laws have been discovered. There is thus no science of "Indian Economics" as apart from the science of "General Economics."

Never the less, the peculiarity and practical importance of some of India's urgent economic problems does necessitate an exclusive study of Indian problems in their historical and environmental perspective, though in that study our knowledge of western economic doctrines will help us a great deal.

Such being the nature of Indian Economics, our study will necessarily embrace facts like Indian natural and social environment and problems like these of Indian agriculture, of co-operative movement, of land-tenures and of Indian industries both old and new. We shall also study the trend of India's foreign trade, the problems of Indian Money, Banking and Exchange, the problem of middle class unemployment, the problem of Indian population, and other allied problems. It is to a detailed study of these problems that we address ourselves in subsequent chapters. Before, however, we deal with any of these problems we shall briefly point out the im-

portance and some of the main obstacles to the systematic study of Indian Economics.

Importance of the study of Indian Economics.

The importance of the study of Indian Economics can hardly be over-emphasised in these days of acute mass poverty and middle class unemployment. As we shall see presently, Nature has not been niggardly in her gifts to India. Yet, inspite of her rich natural resources, the Indian masses have been steeped in direst poverty for centuries. To a large extent, of course, Indian poverty has been due to administrative exploitation brought about by India's political subjection to foreign conquerors. Never the less, a substantial portion of the responsibility must be borne by the Indians themselves.

Historically, India has for some centuries past, lacked the necessary knowledge and the necessary outlook by which she could turn all her resources to the best account possible. A scientific study of Indian Economics is expected to fill up this gap. By presenting the bare facts of our economic life, both in their actuality and their potentiality, and by making tentative suggestions for the betterment of our economic life, our study, it is hoped, will at once help to create the necessary outlook, and the will to conquer the outstanding difficulties that lie in the way to our economic salvation.

Further, a balanced study of Indian Economic facts and problems will help the reader to steer clear of both the extremes into which the uninitiated is likely to fall, of the Scylla of Imperialistic interpretation, and the Charybdis of 'ism'-ridden ideology whether 'Red' or

'Brown' or 'Black'. Our study, in order to be fruitful, must interpret our present in the light of our physical, historical, social, and political facts, and the solution that it will offer must be shown to be integrally and logically related to these facts. In other words, India's Economic future must follow the main trends of her social and environmental heritage. That does not mean the perpetuation of the *Status Quo*, the *Status Quo* of squalor and poverty, of unemployment and premature deaths, and of fatalism and pathetic contentment. Even revolution may be a mode of evolution, though it should be invoked at the last, and not at the first instance, having regards to its great dangers of abuse and horrors in execution. Our conclusion, however, is that Indian Economic salvation can be achieved by determined, peaceful methods, by Planned thinking and by Planned execution, provided there is a sincere co-ordination of efforts on the part of all the vested interests in India.

Main obstacles to the study of Indian Economics.

A scientific study of Indian Economics has been impeded so long by the following facts.

(1) *In the first place*, the British Government, until recently, held fast to the doctrine of universal validity of the classical theory of *laeisser faire*. They believed that because India was primarily an agricultural country, she should always continue to be an agricultural one. Moreover, they believed that because free trade was good for England, it must also be good for India always. Of course, it must be admitted that the policy of the Government was not always inspired by honest faith in economic

dogmas. The real motive force was the old idea of colonial exploitation to which the classical doctrine seemed to give scientific sanction. It was not till Ranade pointed out the inapplicability of orthodox economic doctrines to India, that the atmosphere was clear for a study of Indian economic problems in their proper perspective.

(2) *Secondly*, the absence of proper economic data on which to base sound economic policies has been another serious handicap. So far, the only statistics that are available are supplied by the various Government Departments. But these statistics are hardly reliable for their accuracy, having regard to the rough and empirical methods employed in collecting them. Further, most of the expert Committees and Commissions which have so far been set up to investigate into different economic problems of India, have usually been biassed towards the official view on these matters, and as such we suffer from the lack of really impartial expert views on some of the complicated aspects of our economic life

(3) *Thirdly*, the various Indian Universities, until recently, neglected the study of Indian Economics. Economics became a branch of higher studies only some years ago, though its popularity to-day is ever on the increase.

(4) *Fourthly*, a scientific study of Indian Economics has also been hampered by the patriotic bias on the part of most Indian scholars. While the Government wanted to throw the whole responsibility for Indian poverty on the shoulders of the Indians themselves, Indian scholars

and politicians went to the other extreme, and began to depict the Government as the sole villain of the piece. Indian poverty, for instance, came to be explained solely in terms of administrative exploitation which was conveyed to the masses by the notorious "drain theory." Whatever the Government did, became suspect in the public eye, and the best interests of India have sometimes been sacrificed purely on account of racial and political distrust.

(5) *Lastly*, the dissociation of the people from the administration of the country has also been a great handicap to a realistic study of the facts and problems of Indian economic life.

CHAPTER II.

Natural environment and economic life.

"The mode of life of a people in any region is not an accident but the result of environment." As Holtz has observed in his *Teaching of Geography*, "Modern geography studies the features of the earth, so that the people may be understood. and the future possibilities of the utilisation of the environment for the increased well-being of man may be discovered. A national costume, a national occupation, racial structure and even a racial spiritual trait, may be traced directly or indirectly to the influence of climate." It is environment that determines whether a country can be economically prosperous or backward, whether it is to be primarily agricultural or industrial, whether it can be economically self-sufficient or dependent upon foreign trade.

Physical environment broadly includes the *situation, climate, coast-line, topography, geological structure, flora and fauna, the river and mountain system of a country.*

(1) The Influence of Situation.

"*Situation* favours a ready interchange of ideas, the growth of commercial relations and the enrichment of languages." Ancient civilizations were generally river civilizations. Thus, the Rig-vedic culture was essentially a product of the Ganges and the Indus, just as Sumerian, Babylonian, and Assyrian civilizations were fed by the waters of the Tigris-Euphratis system. The Egyptian

civilization was reared up on the Nile basin. Later on, the Mediterranean sea became the cradle of European civilization, and the distinctive cultures of Greece, Carthage and Rome sprang up in the different corners of the Mediterranean world. With the birth of the modern age trade and commerce entered on the '*Oceanic*' stage and Commercial pre-eminence rapidly passed away from old Mediterranean cities to the new oceanic centres. This explains the rise to greatness of new states like England and Holland which were best situated so far as oceanic commerce is concerned. Similarly, India, at the centre of the Eastern Hemisphere with her three sides open for sea navigation, is admirably situated for commercial expansion.

(2) Influence of the coast line.

The nature of the coast-line is another determining factor. To be of commercial importance, the coast line should be broken and irregular, so that the sea may reach far into the interior regions The coast-line of Great Britain and Holland is very good from this stand point. India like Africa, is very unfortunate in this respect, as the western coast is mostly unbroken and as such open to the violence of the monsoon, while the Eastern Coast is surf-bound. India thus possesses only a few major ports like Karachi, Calcutta, Bombay and Madras.

(3) Influence of rivers.

The river system of a country is the third determining factor. In the first place rivers act as natural transporting agents and for that purpose, they must possess the following qualities.

(1) They must not be ice-bound. There can hardly be any continuous traffic in the case of ice-bound rivers like those of Canada and Russia.

(2) The rivers must be deep enough to enable ships and steamers to ply through them.

(3) There should not be rapids and falls as their existence would also serve to prevent navigation.

(4) The rivers must be perennial and must not dry up during summer months.

The Rhine and the Danube in Europe, the Nile in Egypt are some of the world famous rivers which have played a very important role in the economic life of the countries through which they pass. In India, the Indus, the Ganges and a part of the Brahmaputra also possess the characteristics noted above.

Besides acting as transporting agents, rivers also serve to fertilise the valleys through which they pass. Egypt would have been a desert, had there been no Nile. Similarly, Sind would have been a desert without the presence of the Indus. "The three great rivers of Hindusthan supply, soil manure, moisture and high ways of carriage for all the wealth of the plain."

(4) The influence of mountains.

The mountain system of a country also affects its economic life in a variety of ways. "High massive mountains present the most marked barrier which man meets on the land surface of the earth. They stand as impediments to the intercourse of people, to the spread of population and to the building of roads and rail roads." Mountains also enhance the rigour of climate, specially

in the temperate and cold regions, though in a tropical country, this influence on the temperature is highly bracing and welcome.

Firstly, mountains create a paucity of good cultivable land specially in a small country like Greece or Spain. On the other hand, mountains confer many advantages. They cause rainfall in many countries by capturing moisture-bearing winds as in the case of the Western Ghats and the Himalayan ranges of India. They also influence the climate by keeping off winds. For example, the Himalayas protect India from the severe cold winds of the North in the winter-season.

Secondly, mountains are the sources of rivers which are of great economic utility to the country e.g. the Ganges, the Brahmaputra and the Indus are the products of the Himalayas.

Thirdly, mountains offer beautiful pastoral grounds so that grazing and stock-raising offer profitable occupations to the inhabitants of mountainous region as in the case of Switzerland, Tibet and Kashmere.

Fourthly, the lower slopes of the mountains are generally full of forests which supply raw materials for many industries in addition to pure lumbering occupation. The posibilities, for instance, of the vast Terai forest of India are immense, though so far they have been hardly explored.

Fifthly, mountains conserve great mineral wealth which adds greatly to the economic well-being of a country. For example, most of the valuable minerals of Burmah are found in her mountainous regions.

Lastly, Mountains give rise to mighty water-falls which are responsible for the generation of hydro-electricity. Norway, Sweden, Austria, Spain, Switzerland and Italy are cases in point.

(5) The influence of Configuration.

The configuration of the earth is another important determining factor. Where the configuration is smooth and plain, economic development is very easy. The Indo-Gangetic plain, for instance, is one of the most densely populated regions of the world. The economic activities of men are the greatest on the plains on account of transport facilities and other advantages. In short, the importance of plains can easily be realised if we just remember that though plains form less than 2/5th of the surface of the earth they are the home of more than 4/5th of the people of the world.

(6) The influence of the natural resources.

Minerals, forest and fisheries are the chief natural resources which greatly affect the economic destiny of a country. The industrial prosperity of Great Britain in the 18th and 19th centuries was rendered possible by abundant *mineral resources* of coal and iron. Similarly, south Africa, as she is to-day, practically owes her existence to her Gold and Diamond mines. In the same way, the Gondowana coal fields and rich mineral deposits of the Singhbhum district of North Eastern India account for the industrial development of that region and hold out great possibilities in the future.

The *forest regions* of a country give rise to many industries, Lumbering, boat-making, paper and match

manufactures,—are some of the industries which owe their existence to the rich forest resources of Norway and Sweden. The forest animals of Canada have given risen to her famous fur trade. Forests also influence the rainfall and the climate of the surrounding regions. India's vast Forest wealth thus is capable of very profitable economic exploitation.

The world's best fishing grounds are afforded by continental shelves. Such advantages are enjoyed by Great Britain, Norway, Nova Scotia, New Zealand and Japan. The fishing industry, apart from giving direct employment to a large number of the people, is also a great training ground for shipping. The naval supremacy of Great Britain was largely due to the familiarity with the sea acquired by British marines in the course of their fishing adventures. According to many experts, the Sunderban fishery of Bengal constitutes one of the best fishing grounds of the world.

(7) Influence of Climate.

Climate is another great determining factor. Climatic differences divide the world into so many natural regions whose characteristics as regards vegetation, animal life and main conditions of existence widely differ from one another. There are certain climates like the cold deserts of the Polar Zones and the hot deserts of the tropics where human life is hardly possible. The temperate climate has been generally recognised to be best adapted for economic progress. The Cotton Mill Industry, for instance, can flourish best in a moist and humid climate like that of Lancashire. Similarly, cinematography requires a

bright and sunny weather like that of California which accordingly, has become the home of the famous American Film industry. Climate also affects the nature of transport possible in a paticular region. For instance, river-transport is impossible in the cold regions, while air-transport is rendered unsafe and dangerous in foggy weather. Climate also affects the mind and the physique of the inhabitants. Tropical climate. for instance, generally tends to make the people sluggish and philosophical.

Lastly, the nature of the soil affects the agricultural prosperity of a country. The great wheat-lands of the world occur in the temperate Zone with an annual precipitation not exceeding 30″. The alluvial soil of the Indo-Gangetic plains is also one of the most fertile regions of the world. With the above general observations on the influence of natural environment on man, we pass on to a more detailed study of the Economic Geography of India.

CHAPTER III

Economic Geography.

India has an area of about $1\frac{3}{4}$ million square miles and measures 2000 miles from North to South and 2,500 miles from East to West. India is thus a sub continent equal in area to the whole of Europe without Russia.

India's Situation.

India's place in the globe is very favourable for purposes of international commerce. "Standing almost at the centre of eastern hemisphere, and at the head of the Indian Ocean, she commands all the sea-routes for trade between the old and new world—towards Africa and Europe in the West, Australia in the South.—Siam, China Japan, and America in the East". The presence of the Himalayas, of course, acts as a great handicap for overland trade with Northern Asia, but even here India, from a very early period in her history, has been carrying on a large volume of trade through the north-western and north-eastern passes.

Absence of good harbours.

India has a vast coast line about 3000 miles long, but it is largely devoid of indentations with the result that India has got only a few first class ports. The southern side has few harbours to accomodate large vessels. Violent monsoon winds render the western coast, except Bombay and Karachi unsafe for shipping from May to August.

The Eastern coast is surf-bound and as such requires constant dredging. Calcutta is 80 miles removed from the Ocean route, and also suffers from sand bars in the Hooghly. The principal ports of India are Calcutta, Bombay, Karachi, Madras, Vizigapatam and Chittagang, though there are also some other minor ports.

India's trade routes.

The internal trade routes of India mainly correspond to the different railway systems into which the country has been divided, though water ways and roads also serve, though to a lesser extent, to carry some portion of the merchandise. As regards external trade, the main routes emanate from the principal ports to the different parts of the world. But the sea-routes, though by far the most important, are not the only routes for India's foreign trade. Considerable trade still goes on with Tibet, Afghanistan, and Nepal through mountain passes. The development of the Trans-Caspian Railway, the Trans-Persian line, and the Baghdad Railway holds out immense possibilities of a great increase of India's foreign trade through land-routes in the future. At present, however, strategic considerations are preventing the British government from extending the North Western Railway to the borders of Afghanistan which is essential for that purpose.

Geographically, India can be divided into three natural regions.

(1) The mountainous regions of the North.
(2) The Indo-Gangetic plain.
(3) The Deccan plateau.

(1) The mountainous region of the North.

The Pamir Knot in central Asia is the starting point for a long chain of mountains extending both in the east, and the west in many branches. The Himalayan and the Suleiman ranges broadly cover the Northern portion of India. The Himalayas which contain some of the highest mountain peaks of the world not only act as a natural protective wall for India, but also by intercepting the rain-bearing clouds of the South-western monsoon provide rain-water for the plains, and also give birth to mighty rivers, coming out of frozen snow, which have created the vast Indo-Gangetic system. The Himalayan region up to a certain height is very rich in animal and forest resources, and is also suitable for certain plantations, such as tea. It is thus a great source of potential wealth, though it has been only slightly exploited so far. The Himalayas also obstruct the piercing cold wind of Central Asia from coming into India. Finally, the scenery of the Himalayas as well as the lure of their mighty peaks attract tourists and climbers from every corner of the globe every year, which is a source of income to India.

(2) The Indo-Gangetic system.

The Indo Gangetic system comprises the basins of the three mighty Himalayan rivers, the Indus, the Ganges, and the Brahmaputra. On account of its favourable climate, fertile soil and flat relief rendering possible the easy construction of roads and railways, navigable rivers, and various natural resources, etc., the Indo-Gangetic plain has been the cradle of Indo-Aryan civilisation from

the earliest period. It is the natural granary of India. Sir William Hunter has observed that the Ganges may yet rank as one of the greatest water ways of the world. Riee, wheat, sugar-cane, tobacco, maize, oilseeds, spices, and tea are the principal food-crops, while jute is the principal fibre grown in this region.

(3) The Deccan Plateau.

The Deccan plateau consists of the whole of Peninsular India. Geologically it is much older than Northern India. It is bounded on the north by the Vindhya and the Satpura ranges, on the East by the Eastern Ghat, and on the west by the Western Ghat. It is washed by certain big rivers such as the Mahanadi. Kistna, Cauvery and Vaigi, Tapti and Narmada. The Peninsular rivers, unlike the Himalayan rivers, have good water during the monsoons, but shrivel up in the dry season. There are two flat coast strips on both sides of the Ghats known as the Kankan and the Malabar in the west, and as Coromandal coast in the East. As regards vegetation, rich forests, cinchona trees and cocoanut palm abound. Cotton, rice, millets, oilseeds, sugar cane, tobacco, tea, coffee, and spices,—those are the principal agricultural products of this region. The cinchona trees grow on the mountains, while cocoanuts grow on the plains. The plateau is also rich in mineral resources such as iron, manganese, gold, mica and lime.

Different types of soils in India.

"India, in ancient geological ages, was very different from what we find her now. Geologists say that in the

earliest period she was represented by the Southern Peninsula and was connected with Africa by land ; while over the area where now exists the regions of the Punjab and Rajputana, the tides of a vile and shallow sea ebbed and flowed. Then followed a series of volcanic cataclysms and violent earthquakes which entirely changed her natural features, Finally, through geological processes she acquired her present shape. The following are the six successive formations: (1) Achaean, (2) Vindhyan, (3) Gondwana, (4) Besultic, (5) Tertiary and Cretaceous and (6) Alluvial. The various kinds of soils and minerals of India owe their origin and existence to them." (P. N. Banerjea—Indian Economics).

The soils of India may broadly be divided into four groups : (a) the alluvial soils, (b) the black cotton or *regur* soils, (c) the "red" soils of the crystalline tract and (d) the laterite soils. Of these, the first two are the most important and valuable.

The alluvial soils.

They are the dominant kind of soil in the Indo-Gangetic plains, and also prevail in the Eastern and Western coastal strips of the Deccan Peninsula. These soils are chemically rich as there are phosphoric acid, lime, potash and manganese among their ingredients, although they are deficient in nitrates. The alluvial soils, provided they are properly irrigated, can grow a large variety of *Kharif* and *Rabi* crops.

The Black Cotton soil of the Deccan.

It is called black because of its colour and it is remarkably fitted for the growth of cotton, though jowar,

bazra, pulses, millets are also grown on this soil. These soils occur in the Deccan proper, as also in the river valleys of Bombay and Madras.

The rest of India is covered with either crystalline soils or laterite soil. These soils are lacking in good chemical properties though they are capable of growing some crops under a good system of irrigation. One common characteristic of all these soils is their comparative dryness which makes the artificial supply of water an absolute necessity in Indian agriculture.

The Climate of India.

The whole of Peninsular India lies within the tropic, while the Indo-Gangetic plain lies north of the tropic of Cancer. Peninsular India has got on the whole a higher mean temperature throughout the year, though on the sea-coast temperature is somewhat lower. The Indo-Gangetic plain on the other hand suffers from extremes of temperature both in summer and winter. The one common characteristic, however, of the whole of India except in the hills, during the summer season, is its excessive heat.

Inter-Provincial climatic differences.

The most striking characteristic of Indian climate is its great diversity. Though Sind and Bengal are practically on the same latitude and lie on the two extremities of the Indo-Gangetic plain, their climates are vastly different largely on account of the heavy rainfall in Bengal (in same portions over 80 inches) and the virtual absence of rainfall in Sind (less than 3 inches).

These acute climatic differences have not failed to produce a great diversity in the language, habits, dress, manners, occupations, and even outlook and physical colour of the Indian people. Further, as Dr. Vera Anstey has observed, 'Due to the diversity of the Indian climate, India possesses a great variety of animal, vegetable and mineral products, ranging from the heavily-coated Kashmir hill-sheep to the camel of Sind and the elephant and tiger of Bengal ; from the wheat, fruit and fir trees of the north to the rice and cocoanuts of the hot, low-lying swamps and coastal regions ; and from the coal and iron fields of Bengal, Bihar and Orissa, to the gold of Mysore, and the salt ranges of the Punjab.'

Influence of climate on economic progress.

European scholars have frequently asserted that the tropical climate, while it favours the early rise of civilisation, retards its later development. The reasons advanced in favour of this contention are that, because man can secure his livelihood with comparatively little effort, he tends to become lazy and as such he becomes lacking in self-confidence and the dash and audacity that are necessary for making a great nation. In the temperate climate, on the other hand, as man can live only by perpetual struggle with natural forces, his powers tend to become developed to the highest pitch. In this way the supremacy of the Western races over the oriental is sought to be traced to immutable climatic causes.

The above arguments, however, do not seem to be very sound and the note of dissent does not come exclusively from the East. For instance, Prof. Carr-Saunders has

observed that civilisation progresses directly with, and not inversely to, the bountifulness of Nature. In any case the history of India does not give any countenance to the above view. The tropical climate of India did not prevent her from attaining a very high level of excellence whether on the spiritual or on the material plane in ancient days, and even now, after centuries of political servitude, India does produce gigantic personalities whose peers can hardly be produced by the much vaunted temperate climate of the west. In our opinion, the much criticised lethargy and sluggishness of the Indian people is to be explained not in terms of Natural Laws but in terms of the grinding poverty and political tyranny to which they have been subjected through centuries of systematic administrative exploitation.

THE MONSOON.

The South-west and the North-east Monsoons.

We have already stated that India is a prominent part of the monsoon region of Asia. The term 'monsoon comes from the Arabic word 'mausim' meaning a kind of wind (i. e. rain-bearing wind). The monsoon is really a large-scale form of the sea-breeze. In the summer season of the Northern hemisphere, on account of evaporation due to extreme heat, a low-pressure centre is created in central Asia. The heavy winds from the Indian Ocean thus approach towards the low-pressure regions in a gigantic counter-clock-wise motion carrying moisture

from the sea. That accounts for the *South-west Monsoon.* Similarly in the winter season of the Northern Hemisphere, which is the summer season of the Southern Hemisphere, a low-pressure centre is created in North Eastern Australia towards which winds flow from North-Eastern Asia carrying moisture from the Himalayas, the China sea and the Indian Ocean. This accounts for the *North Eastern Monsoon.* These two monsoons might be regarded as, corresponding to the *Purva-Megha* and the *Uttara-Megha* of Kalidas's *Meghdutam.*

The South-western monsoon comes in two branches : The *Arabian* current and the *Bay of Bengal* current, The Arabian current, being unable to cross the western Ghats, deposits more than 80″ rain-fall on the Malabar and Kankan coasts. The centre of Peninsular India thus lies in the "*Rain-shadow*" of the western Ghats. The Arabian current also supplies some rain-water to the Punjab and the central Provinces. The Bay Current, on the other hand, supplies over 80″ rain-fall to Burma, Assam, a large part of Bengal and the slopes of the Himalayas which enjoy *Relief Rains.* It is also responsible for the rain-fall in the rest of India except those regions served by the Arabian current. The North-eastern Monsoon is comparatively insignificant so far as India is concerned, and gives only some rain to the South eastern coast of India.

For purposes of rain-fall, India can be divided under three heads : (1) Regions of certain and abundant rain-fall. e.g. Bengal, Burma, Assam and the western coast strips., (2) Regions of uncertain rain fall. e.g. Bombay,

Deccan, Ajmere. (3) Regions of scanty rain-fall, e. g. Sind, parts of Rajputana and the Punjab.

The economic effects of the Monsoon.

The importance of the monsoon in the economic life of India can hardly be over-exaggerated in a country in which 90% of the people depend directly or indirectly on agriculture, and in which artificial irrigation and drainage schemes are still very inadequate. If there is a failure or excess of the monsoon, or if monsoon fails to appear or to disappear at the proper time, there is a disaster awaiting the ryot. If agriculture fails, necessarily manufacturers also are hard put to it for lack of raw materials, and also for lack of a good home market. The professional classes and the industrial labourers also suffer on account of reduced demand for their services due to general loss of purchasing power. The Railways also suffer on account of reduced traffic both of passengers and goods. The Government also suffers as its income from Customs, Income-tax, Land-Revenue, Stamps, and Excise falls, while its expenditure increases on account of famine relief. The failure of the monsoon also creates exchange difficulties as India's usual expart surplus ceases and difficulties arise in the payment of the home charges.

Thus the Monsoon can best be described as the nervous system of India, so that if the nervous system gets paralyzed, everything goes awry.

Its influence on social organisation.

Further, the monsoon has also affected the density of population in different parts of India. Population is

densest in regions of abundant rain-fall such as Bengal, and is most scanty in regions of scanty rain-fall like Beluchistan. It is also responsible for the prevalence of self-sufficing village communities in the Indo-Gangetic plain and the Tanjore Delta where adequate rain-fall made the people self-contained. In the Deccan, however, where people could not be self-sufficient on account of inadequate rain-fall extensive sea-trade existed in the palmy days of the Andhras and the Tamils.

Effect on character and out-look.

Besides affecting the social organization of the people, the monsoon has also affected the character and out-look of the people of India. An abundant rain-fall resulting in easy solution of the bread problem made the people ease-loving, conservative and disposed to religious speculation, while its uncertainty has made them fatalistic, as the fate of the people entirely depended upon the bounty of the rain gods. Further, the typical monsoon phenomena of India have also given rise to a peculiar kind of mystic poetry from the days of Kalidas through a succession of poets like Chandidas, Bidyapati, and Tagore. It is extremely doubtful whether any similar group of natural phenomena has so vitally affected the life of any other people in the world.

Different seasons of India.

India is perhaps the only country of the world which exhibits six markedly different seasons. Though this variety of seasons is responsible for a variety of crops and flowers which grow in different seasons, and also

satisfies the intense human desire for changes in climate and atmosphere, it is not without its disadvantages. Indian crops get a very brief period for their full growth, and as such both qualitatively and quantitatively, they are generally inferior to their western counter-parts.

CHAPTER IV.

ECONOMIC RESOURCES OF INDIA.

Mineral resources.

Until the eighties of the last century the general opinion was that India was rather poor in her mineral resources ; since then, however, with the discovery of new sources it has been recognised that mineral deposits in India are sufficient to maintain most of the key-industries. The war in particular gave a great impetus to the development of Indian mineral production. The following statistics compiled from the "*statistical abstracts for British India*" for 1931-32 would give us indications of the quantity of **India's chief minerals.**

Name of the minerals.	Quantity.
Coal (tons)	21716435
Petroleum (gallons)	305018751
Iron ore (tons)	1624883
Silver (oz)	5923005
Salt (tons)	1839400
Lead (tons)	74785
Manganese ore (tons)	537844
Tin ore (cwts)	85104
Diamond (carats)	639
Gold (oz)	330488
Copper ore (tons)	167073

The total value of the minerals in 1934 was Rs. 23·54

crores. We now proceed to giver more details about some of the principal minerals of India.

(1) **Coal**—The Indian coal industry practically came into existence during the second half of the 19th century. Most of the coal comes from the Gondowana coal fields located in Bengal, Behar and Orissa. The concentration of coal in one region has meant much hardship in the outlying parts of India which sometimes find it profitable to import coal from abroad. Secondly, Indian coal, with the exception of some first class Bengal coal, is generally poorer in quality. Though the Gondowana state supplies 70% of the total coal in India, another 30% comes out of Hyderabad, C. P., Burma, Assam, the Punjab, Beluchistan and Rajputana. (For further details about India's coal Industry, see the chapter on Indian Industries.)

(2) **Iron**—The chief iron-areas are Singhbhum in Behar, Barakar in Bengal, certain districts of C. P., Mayurbhanj in Orissa, Maha Balesswar and Malwa in Bombay and Mysore. The Singhbhum region has been described as India's "Northern Ontario" by Dr. J. A. Dunn who is of opinion that it will perhaps prove to be the world's largest deposit of iron-ore. India produces a large quantity of pig-iron which not only meets all local requirements but also provides a large surplus for Export.

(3) **Manganese**.—It is a very valuable mineral which is used for the Bessemer process of manufacturing steel as also in heavy chemical, electrical and glass industries. In India, this industry came into prominence largely in the present century. The principal areas of manganese production are :—the Central Provinces

Madras, Bombay and Mysore. India holds a very important place as regards the production of manganese in the world market.

(4) **Petroleum.**—With the separation of Burma from India, India loses her importance as a petroleum producing country in as much as 9/10 th. of the total Indian output comes from the Irrawaddy valley in Burma. Assam, Beluchistan and the Punjab are the principal areas where petroleum is produced. India produces some 60% of her total requirements of kerosene oil, and imports the rest from Russia, Georgia, Borneo, Persia, and the United States.

(5) **Gold.**—About 3% of the world's Gold comes from India. Of this the Kolar Gold field contributes 98%. Some quantity is also derived by washing the river gravels in the C. P., U. P. and the Punjab. The Gold mines in the Dharwar district of Bombay were closed down in 1911, while those in the Anantpur district of Madras were closed in 1925.

(6) **Silver, Lead and Zinc.**—As regards all these minerals, India loses much by the separation of Burma inas much as the largest deposits come from Bawdwin in Burma. In the gold-fields of Kolar and Anantpur some quantities of silver are available. India, however, including Burma, has to import silver on account of very large domestic consumption of the white metal.

(7) **Salt.**—India is a great producer of salt—the sources being (1) Rocksalt from the salt-range and Kohat-mines in the Punjab, (2) Brine salt from the Sambhor-lake in Rajputana and the Rann of Cutch, (3) Evaporation

of sea-water in the coastal regions of Bombay and Madras. Sea-water accounts for 60°/$_{o}$ of the total Indian salt. India, however, is not self-sufficient as regards salt and has to import some salt from abroad. Bengal is the principal consumer of foreign salt.

(8) **Mica.**—It is principally used in the electrical industries, though during the war it was largely demanded in connection with wireless telegraphy and motor transport. India produces more than $\frac{3}{5}$th of the world's total supply. The principal mica-producing areas are the districts of Hajaribagh, Monghyar and Gaya in Behar and the Nellore-districts of Madras. Ajmeer, Udaipur, Mysore and Orissa have also got small mica mines. India exports mica principally to the U. K., the U. S. A. and Germany,

(9) **Copper and Tin.**—Here also India has been hard hit by the separation of Burma. Some Copper, however has been found in Nellore and Mysore. Large deposits also exist in Chota Nagpur, though they have not been commercially exploited.

(10) **Salt-petre.**—It has a good demand for purposes of manure and glass manufacture. The principal areas are Behar, U. P. and the Punjab. India once possessed a of virtual monopoly of this metal. But the development of Chillean nitrates and of French potash salts, together with the policy of levying heavy export duties, has served to take away both the Foreign and home markets from India.

(11) **Building Stones.**—Sand stones are the most important form of building stones available in India, and they are found in the Vindhya rocks. Various igneous rocks, slates, lime stones, Basalt rock laterite and Porbunder

stone are the other varieties of building stones available. India also has a promising future, as regards cement-making industries as she has got the necessary lime stone and clay, in large quantities at Rajputana, Katni, Porbunder, Lucknow and Cawnpur.

2. THE PRINCIPAL AGRICULTURAL CROPS IN INDIA.

Relative importance and their location.

The chief crops may be classified under two heads.

(1) **Food crops** (2) **Non-food crops**: The latter again may be subdivided under three heads.

(1) **Fibre,** (2) **Oil seeds,** (3) **Drugs and Tobacco.** Food crops occupy 81·8%. of the total sown area while non-food crops account for 18·2%.

I. Food Crops.

(i) **Rice**—Rice is the leading crop of India and accounts for 30% of the total cultivated area. It is grown specially in the moist regions. Bengal, Behar and Orissa, Madras, the U. P, C. P., Assam and Bombay are the main rice-growing regions.

With the separation of Burma, however, India loses her importance as a rice-exporting country as Burma used to export 87% of the total Indian exports In recent years India has imported some rice from Siam. French Indo-China and Japan. India's yield per acre is comparatively low, as Japan produces two times and a half as much, while Spain produces thrice as much per acre.

(ii) **Wheat**—Wheat is second to Rice as regards acreage and accounts for 10% of the total cultivated area.

It is the principal food of the people, in the U. P.; the Punjab and the N. W. Frontier provinces. India occupies the seventh position among the principal wheat-growing countries of the world. Before the war India used to export wheat but since the war India has steadily lost her position in the export market. Recently, on account of keen competition India had to impose protective duties to keep off cheap foreign imports. The development of irrigation especially in the Punjab and Sind has given a great fillip to the production of wheat, while the quality of the grain has been much improved by the introduction of Pusa 12 variety. The use of the grain elevator system will do much to help India's wheat trade. Though wheat next to rice is the most important staple crop, India grows less than one acre for every ten persons compared with 2 to 2½ for each member of the population in Canada and Australia, one acre for every three persons in France and Italy, and one acre for every four persons in the U. K.

In a recent comprehensive survey, the Agricultural Marketing Adviser to the Government of India has made the following important observations :

(a) Owing to defective storage large losses are incurred each year by dampness and weevil, as well as rats and white ants. The total loss is, on the most conservative estimate, above 300,000 tons a year valued at Rs. 2'4 crores. This loss could be minimized, if not entirely eliminated, by systematic storage in ferro concrete *khattis*, as instituted by the trade associations at Muzaffarnagar.

(b) The number of people who considred themselves entitled to take a share of the cultivator's wheat when he

brought it to the market was found to be astonishing. Moreover, there was a sad lack of the amenities in the markets, which are necessary to facilitate business and maintain the produce in a decent clean condition. These disadvantages are greatly minimised in regulated markets.

(c) Standardization of weights and measures, after the example of the Bombay Presidency, and a common system of commercial classification and description,—these two measures will go much to help the wheat trade.

(d) A uniform system of price quotation should be adopted in order to remove the lack of harmony between prices in different markets.

(iii) **Barley.**—It is a winter-crop of India and is grown chiefly in Behar and U. P. On account of large internal demand it is seldom available for export.

(iv) **Millet.**—*Jowar* and *Bajra* are the two principal varieties of millet grown in India. Millet is the staple food of the rural population in Madras, Bombay and some other districts of Southern India. It is grown chiefly in C. P. and U. P., though almost in every province it is grown to some extent. There is no considerable export of any of the millets.

(v) **Pulses.**—They are also grown largely throughout India and are largely consumed in all the Provinces. Grain is the leading pulse in India. Exports of pulses are also very slight on account of huge internal demand.

(vi) **Spices.**—Of the innumerable spices of India pepper, chillies, gingers, cardamons, betel-nuts, cinnamon and cloves are the most important. Pepper is of two

varieties, black and white. It is grown in Malabar, Travancore and the Western Ghats.

Ginger—is grown in Malabar, Surat, U. P. and Bengal. Unlike pepper it does not figure much in export.

Cardamon—is produced in Madras, Mysore, Coorg and Travancore. It is exported to U. K. Arabia, Egypt, Persia and U. S. A.

Cinnamon—is produced in southern India. It is only slightly exported.

Cloves—are grown in the Western Ghats, the production being small Recently, a specialist has been appointed to investigate into the possibilities of this crop

(vii) **Fruits and vegetables.**—India produces a variety of fruits such as Mangoes, Apples, Oranges, Plums, Peaches and Pears and a large variety of vegetables such as Potatoes, Onions, Brinjals, Cabbages, Cauli-flower, Turnips and Tomatoes.

There is a great scope for the development of these crops, with better transport facilities.

(viii) **Sugar cane**—is principally grown in Northern India, though in southern India very fine cane is grown in small quantities. Until recently India depended principally upon foreign imports for white sugar, while the indigenous production took the shape of *gur*. With the grant of protection to the Indian sugar industry, many new sugar factories have come into existence, producing white sugar. The government has also taken great interest in improving the quality of Indian sugar-cane, both through the cane-breeding station at Coimbatore and the Imperial Council of Agricultural Research. The sugar-cane

Act of the central Legislature enabling Provincial Governments to secure a minimum price for the cane-grower, as also the Government's promise to set aside one anna per cwt. totalling rupees 7 lakhs for distribution among the cane growers are likely to confer much benefit upon the growers of sugar-cane (for further details, see the chapter on Indian Industries).

II. Non-food crops.

(1) **Tea.**—With the exception of China, India is the largest producer of tea in the world. It was in 1834 that the first Tea-plantations were made in India at the instance of the East India Company, when the Chinese trade was brought to an end. Since 1865 Government connections with the industry ceased and it came to be financed and managed by Europeans. The largest Tea areas are in Assam and Bengal though some Tea is produced in Madras, the Punjab, U. P. and Travancore. In 1934 India's total output was 383 million pounds. The U. K. is the biggest market for Indian Tea and the preference granted by the Ottawa agreement as well as the tea-restriction scheme did much to stabilise the position of the Tea industry. The funds available from the tea cess, which is 12 as. per hundred pound of exported tea, is utilised for carrying on propaganda in favour of tea in the U. S. A. and in India specially.

(2) **Coffee.**—The production of coffee was perhaps, introduced into India in the 16th century, it is believed, by an Abyssinian. The industry is practically confined to Mysore, Coorg, Madras, Cochin and Travancore. It made much progress upto 1862. Since then it has been

much hard-hit by Brazilian and Kenyan competition in the European market. In 1935 the Indian coffee cess Act was passed providing a fund raised by the cess at the rate of -/8/- per cwt. for carrying on propaganda and research.

(3) **Oil seeds.**—India produces many kinds of oil-seeds such as linseed, sesamum, rape and mustard, groundnut, cocoanut, castor, cotton-seeds etc. The total area under oilseeds in 1933 was nearly 18 million acres in British India. The export of oilseeds occupies the 5th place among Indian export and in 1934 it was valued at Rs. 13 66 crores. Keen competition from Argentine as also import restrictions in Germany, France and Italy have adversely affected the position of Indian oilseeds in the export market. In recent times groundnut has made the biggest progress. The development of the oil-crushing industry in India will do much to develop this branch of cultivation.

(4) **Fibres :**

(a) **Cotton.**—In 1933—34 the total area under cotton was 23'40 million acres. In 1925 the total value of cotton exports was Rs. 95 crores. Since then the American competition as well as Japanese retaliation greatly reduced the foreign demand for Indian cotton. The Indo-Japanese trade Agreement, however, has raised the value of cotton exports from Rs. 20 crores in 1932 to Rs. 34'5 crores in 1934.

Indian cotton is mostly of the short staple variety and as such is not demanded for fine piece-goods. The

Lancashire Indian cotton committee, however, is trying to adapt Indian cotton to British manufacturing processes; while the Agricultural Department is trying to improve the quality of Indian cotton by means of cross-breeding. Certain types like the Punjab-American and Madras-Cambodia are adaptable for spinning yarns of higher count. The Central cotton committee in India has been since 1921 carrying on a great deal of researches with the help of the yield of the cotton cess in order to improve the quality of Indian cotton, and thereby to make the British Empire self-sufficient in the matter of cotton. Japan is the greatest single customer of Indian cotton export. Lancashire has been steadily increasing her consumption of Indian cotton since the conclusion of the Mody-Lees Agreement.

(b) **Jute.**—India enjoys the world's monopoly in the matter of Jute. Bengal is the greatest single producer of Jute, though Assam and Orissa grow some jute. The present depression hit very hard the jute grower though the restriction scheme of 1935 has helped somewhat the recovery of the price of jute. In 1934-35 the value of Indian jute export was Rs. 10 87 crores. Germany and U. K. are the greatest customers of Indian Jute, though other countries also import smaller quantities. Though Bengal enjoys physical monopoly as regards Jute supply, she does not enjoy economic monopoly on account of keen competition among jute exporters. The Bengal peasant could easily be made prosperous, if only the sale of raw jute were properly organised.

(5) **Indigo.**—The Indigo trade was first taken up by the Dutch East India Company. But it encountered

two difficulties. First, the prohibition of imports into England and France which lasted till 1660. Secondly, there was severe competition from the indigo plantation of the west Indies. The East India Company developed indigo plantation in India with the help of American planters. Until 1789 the trade was the company's monopoly, after which it was opened out to the people. But the trade lay practically in European hands. The European planters either cultivated their own estates with the help of hired labourers, or purchased indigo from the poor peasants at an almost nominal price. The cultivation of indigo rapidly expanded, at one time from Dacca to Delhi, and Bengal alone possessed nearly 400 indigo Factories most of which were located in Jessore, Krishnanagar and Tirhoot. The indigo trade reached the pinnacle of prosperity towards the close of the eighteenth century, when the price rose up to Rs. 300 per md., and quantities exceeding 9000 tons came to be exported. The sudden prosperity of the indigo trade in Bengal was due to the destruction of St. Domingo which formerly supplied a large part of the European market.

The indigo planters of Bengal, however, perpetrated much oppression on the tenants, forcing the Government to interfere. Due to this interference, the main centre of the industry now passed to Bihar, Upper India and Madras.

In 1897, however, the production of synthetic indigo in Germany at a very cheap rate virtually put out of business the European indigo planters of India. In 1933-34, the total area under indigo plantation in India was 42,000 acres only. Bengal, Bihar, Orissa, the U. P., Madras

and Bombay are the principal indigo-producing areas. Since 1918 an indigo-cess has been levied on exported indigo, the proceeds of which are utilised for scientific research. Researches are also carried on the Pusa Research Institute and also by the indigo research Chemist to the Government of India. The main exports go to Greece, U. K., France and Egypt.

(6) **Opium.**—Opium was formerly a very lucrative plantation for India. As China is the main consumer of opinm—the opium convention of 1907 by which the Government of India agreed to reduce opium exports by gradual step till in 1935 they ceased altogether, has hard hit this industry. At present Poppy is cultivated under government licenses and this is practically confined to U. P. Opium is now exported only for medicinal purposes and in 1934-35 only 825 cwts. were exported.

(7) **Tobacco.**—It is generally believed that it was the Portuguese who first introduced the tobacco crop into India. In 1934-35, over a million acres were under tobacco. Madras and Bengal are the leading producers, while Behar, Orissa, Bombay, U. P. and Punjab are contributors, Indian tobacco is of inferior quality and attempts are being made by the Pusa Research Institute to produce the Virginian variety. In 1934-35 raw tobacco valued at Rs. 78 lakhs were exported. India however is a large importer of Cigarettes, the indigenous product being largely utilised for *Bidi* purposes. The tobacco import duties are likely to help the cultivation of Indian Tobacco.

(8) **Fodder Crops.**—These are principally grown in

the Punjab, U. P. and Bombay. In 1933-34 10'2 million acres were under fodder crops. The agricultural departments have been carrying on researches in these directions which have resulted in the cultivation of Egyptian clover and berseem.

(9) **Rubber.**—It is principally grown in Madras. Coorg, Mysore, Travancore and Cochin. In 1933 India produced 14 million pounds of raw rubber and the total acreage was 1'7 lakhs. Rubber being an equatorial product, India produces only 3% of the world's output. Before the International Rubber Restriction Scheme of 1934, rubber fared very badly on account of general over production. India imports large quantities of rubber-manufacture.

(10) **Cinchona.**—Cinchona is principally grown on government estates in Darjeeling and in the Nilgiri hills. There are also some private plantations in Madras. The government has unduly restricted the area under Cinchona plantation in as much as India does not produce sufficiently for her domestic consumption, and has to import large quantities of quinine every year. Extensive cultivation of Cinchona is absolutely desirable in a country like India where malaria is one of the greatest scourges, and the people are too poor to purchase quinine except at a very low price.

3. FOREST.

Forests form a great natural resource for any country and in India specially their importance is very great as 1/5th of the total area of the country is under forest. India

possesses a variety of forest vegetations which differ from place to place, according to climate, the nature of the soil and other local factors. Indian forests can be classified under the following heads: (1) *Arid forest*—in Sind, Rajputana, Beluchisthan and parts of the Punjab. Here the Babul is the dominant type.

(2) *Evergreen-forests*—exist in the west coast region, the Eastern Sub-Himalayan tract and Burma. Bamboos, Palm, Fern and Rubber are the main products of these regions. Here the rainfall is very heavy.

(3) *Littoral forest*—prevails in the sea-coast, the characteristic trees belonging to the mangrove family.

(4) *Deciduous* forest occurs in the Sub-Himalayan Tract, the Peninsular India and Burma. Sal, teak and other trees of great commercial value are available in these regions.

(5) The *tidal* forests are generally found in a considerable part of the coastal region of India, as also in the deltas of its rivers. Sundari and mangrove are the principal trees.

Utility of forest.

Forests have great utility both *direct* and *indirect*. *Directly* they can be described as the hand maiden of agriculture: They provide the cultivator with fodder for his livestock and with fuel and timber for his domestic consumption. Grazing in forest is permitted under the forest Code either freely or on payment of certain fees: The Agricultural Commission recommends the growing of grasses in forest and the encouragement of grass-cutting

in preference to grazing. Railway rates should also be revised to enable the easy transportation of fodder. Another way in which the forest might help the cultivator is the provision of fuel and timber for domestic purposes. The existing system of burning cow-dung cakes for fuel purposes should be replaced by a general resort to wood-fuel. Here, too, a great deal of co-operation is necessary between agricultural, forests and Railway authorities. Thirdly, forests give rise to several industries such as paper out of bamboo pulp and dyeing industries.

As regards *indirect* utility, forests render the climate more equable, reduce evaporation, control wind current, regulate the rain-fall, prevent floods, enhance the fertility of the soil, and improve the healthiness and beauty of the surrounding places.

Classification of Forests.

Forests have been classified by the State under three headings: (1) *Reserved*, (2) *Protected*, (3) *Unclassed or public Forests*. Reserved Forests are under the strictest control of the Forest Department of the State. In the case of protected forests, the control is very lax. The unclassed forests are generally placed at the disposal of the public for their own use, subject to certain restrictions. The area under forests forms about 20% of the total area of British India.

Forest produce has been divided into two heads. (1) Major produce such as timber and fuel and (2) Minor produce such as lac, leather, turpentine, resin etc The Agricultural Commission recommends a reclassification of

forests into a major-division consisting of commercial forest and those necessary for climatic reasons and a minor-division consisting of village woodland and fuel plantation. Minor forests should be managed by the Village Panchyat. Finally, a higher course of forestry should be introduced in the agricultural colleges.

Dangers of deforestation.

The dangers of reckless deforestation are already peering in the horizon. They seem to be most pronounced in Bihar and the United Provinces. A recent Government Press Note declares that that the forests of Chota Nagpur have fallen to the axe of the aborigines and that food crops have supplanted trees. The same process has been going on for years in the Gaya and Hazaribagh districts and it is pointed out that there is real danger of desert conditions settling in these localities. What the cultivator appears to be unable to realize is that this sort of 'poaching' will eventually recoil on himself, for forests on the hills act as reservoirs of water and with their disappearance, the springs and streams dry up and Fields in the plains lose their source of moisture.

Similar vandalism has also been perpetrated in the Agra and Etawah regions of the U. P., where desert plants are slowly ousting food crops. In other parts of Northern India, the wanton destruction of forest timber has resulted in large-scale floods.

The example of Bombay.

Thus the need for a determined effort to keep the advancing desert in leash appears to be urgent; that the

authorities are fully aware of the danger and are even now considering schemes for a more scientific control of forests is, however, a hopeful factor. Bombay has already given a heartening lead in this respect by running successfully her "agri-forestry" scheme in the East Nasik district of the Presidency. Here land in "closed" forests is granted free of charge to the needy for cultivation on the condition that the settler grows forest crops in certain specified areas. The scheme was launched about for four years ago with the dual purpose of helping the unemployed and re-afforestation, with only ten unemployed men and a hundred acres of of land. By last year the number of workers rose to 800 and the area of cultivation to 700 acres. Such a scheme, if adopted elsewhere, is bound to succeed. It has succeeded beyond expectations in America where deforestation converted large fertile areas into deserts. Under the Social Security Act of President Roosevelt, thousands of unemployed men are successfully employed in the preservation of America's Forests. Already 2,000,000 areas of forest land have been cultivated and nearly 300,000,000 trees planted. It is to be hoped that under Provincial Autonomy the different Governments will, without much loss of time, take up in earnest the task of forest preservation upon which the future of India so vitally depends.

Forest Revenue : Reasons for its inadequacy.

Although India has got vast areas under forests, her income from this source is hopelessly inadequate. The reasons for this backwardness are as follows:

(1) *Lack of information on the part of the Government and the public as regards the value of timber.*

(2) *The pre-occupation* of the members of the Forest Service, which is very poorly staffed, more *with protection of the trees* than with the exploitation of the produce.

(3) *Absence of transport facilities* for forest produce. The elephant and stream water are the two common means of transportation. But the elephant is not available everywhere, and moreover, is very costly. Stream water again gets dried up in some months, and moreover, a great deal of damage takes place on account of collision of timber with stones and boulders with which mountain streams are generally associated. The possibility of building roads and Ropeways should be fully explored.

(4) Lastly, the *absence of proper afforestation*. Trees of real Commercial value remain scattered, so that large scale exploitation becomes impossible. The Forest Department should pursue a policy of afforestation in order to secure full benefits out of India's Forest resources.

The Royal Commission on Indian Agriculture recommends the appointment of a Forest Utilisation Officer who will be entrusted with the utilisation and development of forest industries. Reckless destruction of forest which prevailed in the early days of the British Rule can have nothing but undesirable effects upon the Country's economic life. A systematic policy of forest conservation along with imaginative exploitation is all that is necessary to secure for India the wealth which Nature has given her through her enormous forest resources.

CHAPTER V.

I. SOCIAL ORGANIZATION.

Influence of social institutions on economic activity.

The economic activity of every country is moulded by its social and religious institutions quite as much as by its physical environment, with this difference that the one is variable while the other is constant. Social and religious institutions not only predispose the mind as regards economic activities but also are largely responsible for the creation of opportunities through which individuals might seek their own economic salvation.

The caste system : its origin.

In India the Hindu caste system is the most important social institution. A caste has been defined as a 'collection of families or groups of families bearing a common name which usually denotes or is associated with a specific occupation ; claiming common descent from a mythical ancestor, human or divine ; professing to follow the same calling, and regarded by those who are competent to give an opinion as forming a single homogeneus community'.

The origin of the caste system is shrouded in mystery. James Mill held that the caste system was originated by some inspired leader who foresaw the advantages of a systematic division of labour. According to Senart 'caste is the normal development of ancient Aryan institutions, which assumed this form in the struggle to adapt them-

selves to the conditions with which they came in contact in India.'

Whatever the elements of truth in the different theories, they must be regarded as extremely inadequate in as much as they do not explain the extreme rigidity of the later evolution of the caste system compared to its original fluidity. However, for purposes of Economics, it is not necessary for us to ascertain exactly the factors that gave rise to the caste system in its present rigid form. We must accept it as a given fact, and then analyse its consequences.

Merits of the system.

However glaring be the defects of the caste system in its present frozen form it must have some solid survival value having regard to the vitality of the system. The original division of the Hindus into three upper castes corresponded to the three broad divisions of human nature itself, namely, what H. G. Wells has called the *priestly persona*, the *nomadic persona*, and the *peasant persona*. The fourth class, namely the Sudras, consisted of the demoralized native population who could be little more than servants to their new Aryan masters. Viewed in this light, the caste system might be said to possess an element of universality about it. It represented the working of the principle of division of labour and promoted equation between function and capacity.

Secondly, it served as a vehicle for the transmission of hereditary skill and dexterity in different occupations. The father unhesitatingly taught his arts to his son who developed and handed them over to his successor. The

marvellous perfection reached in some of the Indian industries and crafts in the Ancient and Medieval epochs was at least partly due to the caste system.

Thirdly, it solved the bread problem for the people as they had their respective occupations present before them together with the necessary training facilities.

Fourthly, it helped to maintain the purity of the stock in these troublesome days when India was flooded with the successive streams of invaders.

Fifthly, it was perhaps the only system under which different races and cultures could exist side by side with a spirit of Communal Fellowship, as different castes under which they were included were complementary to one another.

"The caste organization is to the Hindu his club, his trade union, his benefit society, and his philanthropic society"—(Low). In the villages specially, the caste fulfils some of the functions which were discharged by the trade and craft guild of medieval Europe. It ensures the proper training of apprentices, fosters good feelings among the members of the same caste, occasionally serves as a court of arbitration for the peaceful settlement of petty disputes, metes out punishment to the violators of its mandates, and in some cases even determines wages and prices and has a demoralising influence upon every one.

Caste and guild Compared.

Certain writers have tried to establish a parallelism between the Indian caste system and the medieval guild system of Europe. The analogy, however, is very imperfect. There was no hereditary rigidity in the guild system,

as outsiders could be included within a guild subject to certain conditions. Secondly, the guilds were voluntary associations which the caste is definitely not.

Defects of the System.

Whatever might be the merits of the caste system in its pristine vedic form, certainly its complicated structure in the world today has lost all validity. There have been infinite subdivisons even within a particular caste which serve to vivisect the entire Body Politic of Hindu India. There can be no final economic salvation for India unless she is politically Free. Yet that political freedom could not be achieved so long as Hindu India remains a house divided against itself.

Secondly, the caste has prevented the equation between function and capacity. The son of a Brahmin is not necessarily of a priestly mind. Yet such is the rigour of the caste syetem, he could not follow any other occupation for fear of social ostracism. Labour and Capital thus tend to become immobile wherever the caste system remains strong. Some important trades remain in inefficient and illiterate hands as the educated upper classes are debarred from joining them.

Thirdly, it is an obstacle to large scale production. The necessary volume of capital and co-ordination of different types of labour by which alone large scale business is possible is rendered impossible by the division of people into so many water-tight compartments.

Fourthly, the caste system has prevented the apprecia-tion of the fundamental dignity of labour. The so called upper castes have always looked down upon all kind of

manual labour as fit only for the Sudras. The result has been the overcrowding in the so-called respectable professions resulting in huge unemployment figures.

Fifthly, the endogamous system of marriage enjoined by the caste system has also resulted in racial deterioration.

Lastly, the caste system has destroyed the sense of equality among the people. The upper castes suffer from an irrational superiority complex, while the lower castes suffer from an inferiority complex.

The present position.

With the impact of western civilization, however, the caste system has lost a great deal of its old rigours. The caste no longer indicates one's profession or calling. The break-up of the old self-sufficing rural economy brought about by revolutions in transport and industry has compelled people to resort to all sorts of avocations irrespective of caste mandates.

The British system of education which makes no distinction between caste and caste, the British system of law which metes out equal treatment to everyone, and above all, the throwing open of all state employments to every caste accompanied by special encouragement to members of the so called Depressed classes,—all these factors serve to undermine, however, imperceptibly, the very foundations of the traditional caste system. Among the students specially, caste restrictions have practically lost all force. In Hostels, Restaurants, and Garden or steamer parties, the most orthodox Vaidic Brahmin is compelled to brush shoulders with his friend possibly belonging to the lowest castes. The growing critical spirit of the age, together

with rapidly dwindling faith in old customs and restrictions, the increasing tension of the struggle for mere existence, the growth of large towns and cities where men are honoured and respected more for their riches than for anything else, and lastly, the onward march of the spirit of democracy which refuses to distinguish between man and man,—all these elements serve to disintegrate the old, rigorous caste system.

2. JOINT FAMILY SYSTEM.

Origin of the institution.

[illegible]anade pointed out long ago, in India the [illegible]the individual is the economic unit and [illegible]n the joint and undivided family. "Thus [illegible] together several generations with [illegible]llatera[illegible]ting a single house hold". The [illegible]oint in food, worship and estate. It is presided [illegible] the eldest living male member who is the custodian of the interests of every single member ; though generally the females have also got a head, who is the eldest living female. This system came into existence on account of various causes, both economic and racial. The joint family patriarchal organisation of India introduced by the Indo-Aryan invaders has a close resemblance to similar institutions among ancient Greeks and Romans. It carried forward the spiritual traditions of the particular family presided over by a particular deity.

The System thus came into existence on account of kinship, religion, social traditions and economic conditions of these days. To day however on account of new social

and economic conditions, this system is in a state of disintegration.

Merits of the institution.

Whatever be the demerits of the system, it must have possessed some solid advantages as otherwise it could not have stood successfully the test of time.

First, it rendered living comparatively cheap, as under separate family system a great deal of domestic items is unnecessarily multiplied.

Secondly, it provided for comparatively large scale Farming and therefore for some sort of divison of labour, as the lands were not divided according to the Hindu laws of inheritance and succession.

Thirdly, it provided a kind of natural insurance against sickness and death. If a single member died or became disabled, it did not make much difference to the lot of the survivors.

Fourthly, it tended to develop the ideals of service and sacrifice as the individual members merge themselves completely in the family system. Thus as Dr. Mookherjee has pointed out, "the joint family system based upon the virtue of affection produced that peculiar socio-co-operative outlook in the Indian economic organisation which contrasts so favourably with the aggressive individualism of the west.' The joint family system is the only record of communism in practice though it was confined within narrow limits.

Demerits of the institution.

The system, however, has revealed many serious defects :

First, it has encouraged idleness. When every member is assured of getting a subsistence according to the general standard naturally he does not feel much in-centive to work hard.

Secondly, it made the people compulsorily stay-at-home in the interests of family unity. It thus killed all enterprise and the spirit of adventure which is the key to the great economic progress achieved by the west.

Thirdly, it led to the dissipation of Capital, as the individual had to place all his funds in the family chest, and thus no Capital was available for starting big business or for improving them.

Fourthly, the system gave undue power to the family head who from his old age was likely to be unsympathetic to enterprise and liberal ideas It thus served to reinforce the forces of conservatism, thereby hindering social and economic progress.

Fifthly, it encouraged jealousy and bitterness among different members of the family as their contributions were unequal, while their share was equal. All the forces of petty narrowness thus obtained a fresh impetus.

And lastly, it has induced a fatalistic turn of mind on account of the paralysis of the individual spirit.

Causes of the gradual dissolution of the joint family system.

Whatever be the relative merits or demerits of the joint family institution, there can be no doubt that the institution is visibly breaking down under the impact

of various forces. Dr. Radhakamal Mukherjee has observed that the earliest blow to the institution came from the rise of Buddhism which questioned the sanctity of Manu's Code of Ethics from which the joint family system derived its main theoretical support.

But the greatest challenge to the joint family system has come from the implications of modern life.

(1) *In the first place*, the development of modern transport facilities, which has helped to kill many of the old family cottage industries, has also facilitated the break-up of the old joint family system. Many members of the family migrated to the factories and towns where they could get an employment.

(2) *Secondly*, the necessity of giving proper education to young boys has compelled many guardians to send their wards to the towns and cities. These young men, getting accustomed to city life, never felt the intensity of the old sentiment later in life, and the exigencies of service life accelerated the process initiated by the early student life.

(3) *Thirdly*, the whole spirit of modern education tends towards the growth of individualism and the Hindu laws of inheritance and succession serve further to strengthen this individualist spirit.

(4) *Lastly*, modern ideas of decency which require an increasingly higher standard of living, high expenditure on the education of children and the marriage of daughters, also militate against the continuance of large joint families where equal treatment must be meted out to everyone.

Concluding Observations.

India is fast approaching towards, for the above mentioned causes, the separate family system of the west. Time alone will show whether India stands to gain by the pursuit of rabid individualism.

In one sense Individualism has already been much discredited in the western world. The growing feeling for communal ownership of many kinds of property and of agents of production seems to confirm the view that the time-honoured joint family system among the Hindus, if only it could be revitalised by the purging of some of its flagrant evils, perhaps represents a superior type of social organisation, embodying the virtues of service and sacrifice, to the western conception of family which has released all the forces of selfishness and gross materialism.

3. THE HINDU LAWS OF INHERITANCE.

Mitakshara and Dayabhaga Systems.

As Seligman has observed, the institution of private property has got *three* stages: *Communal property*, *joint family property*, and *individual private property*. India is still in the second stage, though the transition to the third stage has already begun. At first, the head of the family was the sole manager of the property. When the questions of alienation arose, two conflicting theories were propounded by two leading commentaries on Hindu law, Mitakshara and Dayabhaga. The latter prevails in Bengal, and the former in other parts of India. There are differences as regards ownership. Under the Dayabhaga system, the father is the sole owner during

his life time. Under the Mitakshara system the father and sons are joint owners.

Again under Mitakshara system there can be no inheritance, as the death of a member makes no change in ownership, and property remains undivided unless partition is insisted on. In a Dayabhaga family, however, there is inheritance whenever a member dies.

Property rights of Hindu women.

According to Hindu laws, women can not inherit any property, unless it is a Stridhan property specially endowed by her husband. But women inherit life estates which they hold in trust for the next male heirs. The Hindu law of inheritance is based upon the *pinda* theory, so that absolute inheritance passes only to these who can offer Pindas for the spiritual good of the deceased.

Mahomedan law of inheritance.

According to Mahomedan law, the owner whether male or female enjoys absolute right in his or her property for the time being. Further, Moslem law recognises a large number of heirs, Not only sons, but daughters, parents, wives or husbands of the deceased are all entitled to some share of the property. Thus, under Moslem Law, there is an even greater subdivision and partition of property than under Hindu law,

Economic effects of the law of Inheritance.

We now proceed to trace the economic effects of these laws. The result under both these schools is a general dissemination of property, all sons having an equal share.

Thus, great differences of wealth are prevented from arising.

Secondly, it ensures a stable rural society consisting of independent peasant proprietors.

Finally, it gives every one some start in life which is not possible in countries governed by laws of primogeniture. Nevertheless, there is a dark side of the picture.

First, it prevents the accumulation of Capital which again has hindered the development of large-scale industries.

Secondly, it has resulted in acute subdivision and fragmentation of agricultural holdings which has been one of the greatest curses of Indian agriculture.

Lastly, it has promoted the legalistic spirit among the Indian masses which has meant the ruin of many families. If the law of primogeniture perpetuates only one fool in the family, the Hindu laws tend to perpetuate as many fools as there are heirs. The great part played by the younger sons of England has no counter-part in India on account of these laws.

4. INFLUENCE OF RELIGION.

To what extent is religion responsible for India's poverty ?

It has been said that the poverty of India is due to the dominance of the ascetic ideas and of the other worldly attitude enjoined by Indian religion. This theory, however, is not supported by the whole course of Indian

history. If India produced great religious thinkers in the past, she also produced great Empire builders, merchants, and colonisers. History tells us that India was looked upon as the golden orient by the rest of the world, in the ancient and medieval periods. To-day, we find great monuments of arts and architecture testifying to the great interest India took in things mundane. The causes of the fatalistic pessimism which pervades the Indian masses to-day have thus to be sought not so much in Indian religion as in the heartless conditions of exploitation and tyranny under which Indians had to live both in the Moghul days and also in the early days of the East India Company's administration. Moreover, it is inconceivable that the ordinary masses should be so much influenced by religious ideals as to neglect the pursuit of wealth and worldly comforts if it is otherwise possible.

Partial Elements of truth in the old view.

Nevertheless, there is some element of truth in the theory as India's best men have systematically turned away from the path of material aggrandizement and even if some of them did not turn away, they certainly never adopted unfair methods of exploitation, a scruple hardly shared by the enterprising spirit of the West. In this respect, however, the impact of the materialistic civilisation of the west is lessening the hold of religion upon the Indian mind so that in future religion can no longer be blamed as the cause of Indian poverty even if in the past it did some injury.

CHAPTER VI.

PROBLEM OF POPULATION.

According to the census report of 1931 the total Indian population was nearly 353 millions in that year, compared to 320 millions in 1921. Though territorially India is half of U.S.A., her population is thrice as large. India's Population forms almost 1/5th of the total population of the world.

Factors determining density of population.

The density of population, i.e., the number supported per square mile depends largely on the external environment and its utilisation. Thus, *climate, political security*, the prevailing *standard of living*, and *economic resources, degree of rainfall, nature of the soil, configuration of the earth* as well as the *stage of economic development* govern the density of population. An agricultural country can support a larger number of people than a pastoral one, while an industrial country can support a larger number than an agricultural one.

Density and Prosperity.

On the other hand, we cannot infer any degree of prosperity from any given density. The U. S. A. and Egypt, for instance, have got the same low density though the former is incomparably more prosperous than the latter. Similarly, the density of Bengal approaches that of England; but that does not mean that Bengal is as prosperous as England. We now proceed to indicate the

distribution of the total population of India into different groups.

Distribution of the population according to various tests.

(1) *According to religion*—Of every 100 persons in British India 68 are Hindus, 22 Mahomedans, 3 Buddhists, 3 Animists, 1 Sikh, and 1 Christian, "of the remaining two —One is likely to be a Buddhist or a Christian and the other most probably a Jain." It is clear from the above description that the Hindus are an overwhelming majority taking India as a whole. The Moslems form the largest single minority. The distribution of the population is such that the Hindus predominate everywhere except in the North-west and the North-east of India. The Sikhs are practically confined within the Punjab while the Jains are confined to Bombay and Baroda.

(2) *According to occupation.*—Agriculture accounts for 65·6% of the total number of workers, while Industries account for 10·38% of which only 1·5% are engaged in organised industry. The administration engages only 1·25% of the total number, while the remainder are supported by domestic, miscellaneous and unproductive occupations. 11% of the total population is urban while the rest is rural.

It is significant that while in India the Urban population is just 11%, in France it is 49%, in Northern Ireland 50·8%, in Canada 53·7%, in U. S. A. 56·2% and in England and Wales 80%. The preponderant rural bias of the population of India is only another indication of the all-round backwardness of the country, as Urbanisation

depends primarily upon the development of industry, trade and transport.

(3) *According to sex.*—Proportion of females to every thousand males is 940. It is only in Madras, Behar and Orissa that females outnumber males. A comparison of the age-group in India with that of other advanced countries reveals the following facts. In the youngest group (0—10 years), there is a deficiency of Females in India compared with males: For every 100 Female children there are 108 male children born, but from the age of 10 and specially after adolescence the death rate among females shows an excess over that of males, contrary to European experience. The explanation is to be sought in certain social practices; such as, the *purda*, child marriage, and the deliberate neglect of females by Indian parents themselves. The deficiency of females is particularly marked in the big towns and cities which never fails to affect the health and morals of the workers. The percentage of female workers to the total number of females is 25 in India as against 26 in England and Wales, 39 in France and 18 in U. S. A. The high percentage, however, is more an indication of the general poverty of the masses than of their enlightenment.

(4) *According to age.*—The age distribution of the population of every country can be exhibited in the form of a pyramid. In the case of India the age pyramid has the broadest base of all countries owing to the high birth rate.

The pyramid, however, tapers towards a point more sharply than in the case of another country, indicating

the inferior longevity of the Indian population. There are relatively very few people in India who live beyond the age of 50 Again the commonly accepted limits for the working population are between the ages of 15, and 60 or 65 in Europe but in India the age-limits are 15 and 40. The excessive mortality among Children must also be reflected in a smaller number of adults some 15 years hence, while the death of adults during the reproductive period of life must also result in a smaller proportion of children.

The birth-rate in India.

The actual size of a country's population depends upon natality, mortality and migration. In India migration is a rather unimportant factor in as much as large-scale emigration is not possible on account of the hostile attitude adopted by other countries, esp. Empire countries towards Indian immigrants. As regards birth rate and death rate, India occupies a position of unenviable pre-eminence among the civilized countries of the world. The annual birth rate and death-rate are among the highest in the world, being 34·3 and 24·9 respectively per every 1000 population,

The cause of high birth in India.

The factors which help high birth rate in India can be summed up as follows :

(1) Religious injunctions.

(2) Warm climate leading to early puberty both of boys and girls.

(3) Low standard of living encouraging any number of births per marriage.

(4) The joint family system which largely removes the economic handicaps to marriage.

(5) General lack of knowledge of effective methods of birth-control.

The factors which retard high births in India.

(1) Lower fecundity of Indian women compared to their European sisters.

(2) Prolonged lactation, Breast-feeding, continued for a long time, impairs the fertility of women.

(3) Hypergamy. Kulinism and the search for a groom higher up in the caste ladder acts as a great obstacle to marriage.

(4) Loss of vitality on account of preventible diseases.

(5) Prohibition of widow remarriage.

(6) General raising of the marriageable age in the case of the educated classes.

(7) Growing popularity of birth-control among the educated people.

We now proceed to discuss the above points which favour or retard high birth-rate in India.

A high birth rate and a high death rate usually go together. The birth rate of a country depends partly upon its social customs and partly upon the natural fecundity of the people. "In India marriage and children are an almost religious necessity. A Hindu male must marry and beget children to perform his funeral rites lest his spirit should wander uneasily in the waste-places of the earth. A Hindu maiden, unmarried at puberty is a source of social obloquy to her family and damnation to her ancestors."

(*Wattal—The Population Problem in India*)

Among Mahomedans and Animists though religious obligations are wanting, early marriage is equally common. The Institutions of the joint family further encourage it. Economic considerations rather than retarding marriage as in the west, actually promote it among the masses because the wife is a necessary as a household drudge, and even helps the husband in outdoor work. The children are also an asset because they can be put to some kind of work at a very early age, and thereby made to pay their way. Of all countries India has the lowest proportion of unmarried for both sexes. Child marriages are common despite the Sarda Act.

Islam : the more prolific race.

The universality of marriage however, is somewhat offset by Hindu prejudices against widow remarriage. The most prolific races in India are the aborigines. Islam comes next, the main causes being comparative absence of early marriage which impedes the fertility of Hindu girls, greater frequency of widow remarriage, absence of hypergamy and caste, and more nutritious diet. In this connection we can refer to Spencer's explanation that organisms multiply in inverse ratio to the dignity and worth of individual life. Our high fertility therefore is an indication of the primitive state of our society.

The Death rate in India.

The high death rate in India is in the last resort due to general poverty which makes the people peculiarly non-resistant to diseases like Malaria, Plague and Influenza. The average expectation of a male in England is 55'62 years. It is only 26'91 in India. In the case of females.

the figures are 26·56 for India and 59·58 for England. The expectation of life in European countries has been showing a decided improvement on account of better nutrition and sanitation. In India, however, no improvement is visible. The two outstanding features of death rate in India are the high infantile mortality and the high female mortality at reproductive ages.

Heavy Infantile mortality in India.

About one-fifth of the children born die before they reach the age of one year, and the total figure for infantile mortality accounts for one-fifth of the total number of deaths in the country. The *main causes* of such heavy child mortal[illegible]y can be summed up as follows :

[illegible]*emature birth and debility at birth* accounting [illegible] percent of the total deaths.

(2) The lack of proper diet on account of both poverty and ignorance.

(3) The lack of proper medical [illegible]ing illness.

(4) Insanitary environment.

(5) Industrial employment of mothers in the case of the poor and the low class people. The children are left uncared for, and the mothers do not even hesitate to drug their children with opium in order to keep them quiet. Thus the largest number of infantile death occurs in the big cities. Per every 1000 children born, the mortality figure is as high as 566 in Bombay, 386 in Calcutta, 303 in Rangoon, 282 in Madras, and 233 in Delhi.

Heavy Female mortality in India.

As we have already observed, the death-rate among women is highest at the reproductive age (15—40). This is due to the following causes :

(1) Child marriage and premature consummation. "A fairly large percentage of wives dies of *child-birth, phthisis*, or some *ovarian complication* within 10 years of the consummation of the marriage."

(2) Lack of proper rest both immediately before and immediately after confinement. In India the women of the poorer classes are all domestic drudges. and as such they can hardly afford to take the rest medically necessary for their good health. The evil is greatly intensified in the case of the working class women who, in addition to being domestic drudges, have also to work for long hours in the factories in the most delicate state of health.

(3) Mishandling of women during child-birth. In India, except among the relatively well-to-do classes, the delivery of women is helped either by their female neighbours and relatives or by untrained *dais*. The lack of proper knowledge of the principles of midwifery is thus largely responsible for the extra-ordinary female mortality of our country. The remedy seems to be wide diffusion of hygienic ideas, and above all, increased supply of trained nurses and mid-wives.

THE PROBLEM OF OVER-POPULATION IN INDIA

The Theory of Malthus

According to Malthus, population increases by Geometrical Progression, while food supply increases by Arithmetrical Progression. Hence there is a natural tendency for population to out-strip the available food supply, resulting in over-population. As regards remedies Malthus discusses two kinds of checks, namely :

Preventive checks and *Positive* checks.

Preventive checks—are those restraints upon the growth of population which are adopted by man at his own discretion such as celebacy, late marriage, self-control, birth-control etc.

Positive checks—on the other hand, are Nature's devices to weed out the surplus population, such as War Famine, Diseases, Earth-quake, etc.

As positive checks are not welcome and may even have a very demoralising effect upon the surviving people, Malthus advocates Preventive checks in order to ward off the hydra-headed monster of over-population.

Malthusianism discredited : The concept of optimum population.

This doctrine of Malthus has, of course, been discarded in many respects. Neither population, nor food supply follows any Mathematical ratio. Nevertheless Malthus is quite correct in insisting that unless the growth of popu-

lation is kept within reasonable bounds, the prosperity of a country will be threatened sooner or later. But when we speak of over-population, we do not mean by it exactly what Malthus had in his mind. In order to understand over-population we have first to understand the meaning of optimum population which has been described by Cannan as follows :—At any given time, or which comes to the same thing, knowledge and circumstances remaining the same, there is what may be called a point of maximum returns when the amount of labour is such that both an increase and a decrease in it would diminish proportionate returns." Thus the optimum point refers to that precarious point in which the total number of population is exactly in *technological* equilibrium with a given stage of industrial arts and economic circumstances. When actual population is greater than the optimum, we have over-population, and when it is less, it is under-population. From the above definition, it is clear that the optimum population of to day can easily become over-population to morrow, if a new industrial technique is discovered necessitating a smaller population for full economic exploitation.

With the above general theoretical arguments in the back-ground, we now proceed to discuss the problem of over-population in India. The problem is a highly controversial one and we might mention at the outset that while the Government maintains that over-population has taken place and is the main cause of Indian poverty, Indian Economists in general hold the opposite view. The case for over population can be briefly summarised as follows.

Case for over-population : main arguments

(1) The high birth-rate in India, resulting in greater pressure on land, unaccompanied by corresponding industrial development, creates a presumption in favour of over-population.

(2) If we then remember that death rate is also very high in India, the case for over-population is further strengthened according to the Malthusian doctrine of positive checks.

Besides, the prevailing low standard of living, the growing economic tension among the masses and the swelling ranks of the unemployed,—all these might be adduced as further evidence of the existence of over population in India both as a fact and as a tendency.

Case against over population.

On the other hand, opponents of this theory maintain :

(1) That the standard of living is increasing rather than diminishing though at a slow pace.

(2) That unemployment is a purely economic phenomenon, having nothing to do with Biology.

(3) That high birth-rate is due to social and not natural causes and therefore can be checked.

(4) That high death-rate is due to the apathy of the Public Health Departments and lack of sanitary consciousness for which Government is solely responsible.

(5) That India has vast natural resources which if properly exploited can maintain the existing and even a larger population with decency and comfort.

Conclusions.

Whatever be the truth in the arguments of the opponents of the over-population theory, it must be admitted that in the absence of rapid industrialisation the nightmare of over-population, if not already brooding over the country, cannot really be far off. The high birth rate should be at once recognised as a great social menace. It is a fact that individual families, except among the very rich, do suffer a great deal on account of the large number of children born. The practical issue, therefore, is what should be the remedy.

"The Malthusian will advocate celebacy and self-control for a great many, while the eugenist will advocate marriage only for such as are fit physically and mentally for the propagation of the race. But the Malthusian makes much too strong a demand upon human nature, and the Eugenist holds out an ideal of collective good, which individual selfishness will never accept. In former times, Infanticide and abortion played their part in checking the growth of population. The existing moral and legal conceptions however, do not allow such inhuman practices. Hypergamy, Prolonged lactation, Prohibition of widow remarriage for Hindus and above all lowered fecundity of Indian women compared to their western sisters due to a variety of social, racial and climatic factors,—are some of the Preventive Checks which have been long in operation. But their inadequacy must be apparent to any one who remembers the onward march of Indian population revealed by successive Census Reports.' —(*Wattal*)

Problem of birth-control.

Hence the problem of propaganda of birth-control by artificial methods forces itself upon the mind of every practical politician. Of course, it has its objections, namely, that it is unnatural, that it might lead to much

immorality, that it might lead to race-suicide and that above all the cost is prohibitive for the Indian masses who suffer most from this trouble. Nevertheless, the problem is a serious one and sooner or later must be tackled, if India is not to be over awed by the Malthusian spectre.

Suggested remedies of over-population.

Besides birth-control practices, the following other remedies have been suggested for the relief of over-population :

(1) Extension of cultivation through Irrigation or otherwise.

(2) Rapid industrialisation of the country.

(3) Migration, internal and external.

(1) Extension of cultivation.

According to the Census Report of 1901, two-thirds of the total population of India occupy one-fourth of the total area of India There is thus a considerable scope for multiplication on the remaining three-fourths of the area which is very sparsely populated. The Report further observes that there are considerable tracts even in densely populated areas where there is ample room for expansion and that irrigation and improved methods of farming can give invaluable assistance in assisting an increased population.

As regards the possibility of extension, it is to be remembered that of the total area 41% (excluding the Forest area) is not available for cultivation, that another 35% is at present under cultivation and that the current

fallow and cultivable waste lands form the remaining 30% which alone is available for the extension of cultivation. But here the difficulties are very great. Either the rainfall is scanty and precarious, or there is scarcity of labour, or the place is uninhabitable owing to malaria and other tropical diseases.

In the older provinces like Bengal, the U. P., Bombay, and Madras, all the better kinds of the land have already been brought into cultivation, and only the inferior lands are available for further cultivation. In Bengal, the Sunderbans are the only cultivable area which can be colonised, and the co-operative experiment of Sir Daniel Hamilton at Gosaba is an encouraging example in this respect.

In Assam, there is a considerable scope for the extension of cultivation, but here the difficulties are ; first, the absence of local supply of labour ; secondly, the difficulties and costs of transportation ; thirdly, the unhealthy climate of the locality ; and lastly, the absence of proper facilities for colonisation.

In Sind and in the Punjab, irrigation works have opened out considerable areas for cultivation ; and in the latter province specially some colonies, known as the Canal Colonies, have already come into existence.

In the other provinces, the scope for the extension of cultivation is still more limited. We thus see that there is not much possibility of supporting an increased population through extended cultivation in India.

(II) Industrialisation of the Country.

We have already observed that the greatest hope of the country lies in its rapid industrialisation. The

problem of population today, as Seligman has pointed out, is not of food but of wealth. If more wealth can be produced with the help of industries, and if such increased wealth can be properly distributed, the whole menace of over-population will vanish away like snow before the sunshine. Unfortunately, in India, on account of various factors, industrialisation at the proper rate can not be looked upon as an immediate possibility unless the Government launches upon a bold system of planned economy. The past record, and the present attitude of the various Governments, however, preclude any such possibility.

(III) Mirgation.

(A) Inter-Provincial Migration.

It has been suggested that some relief from over-population might be obtained by persuading the surplus population in the densely populated provinces to migrate to the sparsely populated areas. As a matter of fact, some migrations do actually take place to meet the demand for labour. For example, the jute mills of Hooghly recruit their labour largely from the neighbouring provinces of Bihar, Orissa, Madras, C. P. and U. P. Similarly, Assam recruits her plantation labour from the neighbouring provinces as far away as Bombay. But these migrations are on such a small scale that "little relief has been given to either congested or sparsely populated districts." Besides the limited demand for industrial labour, another handicap to inter-provincial migration is the excessive conservatism and love of home of the rural masses.

(B) External Emigration.

External emigration as a measure of relief of over-population is a familiar practice of the human race from the earliest times. The series of tribal movements of the Indo-Aryan race from the steppes of central Asia were inspired by the same cause. Similarly, the great colonisation movements of ancient Greece, ancient Rome, and modern Britain and other Great Powers were fundamentally caused by economic causes.

In ancient times, India was also a great colonising country, and Indian colonists migrated to Ceylon, Burma, Malay, Champa, Java, Bali, and other islands on the Indian Ocean. Thus came into existence a Greater India which was Indian in population, culture and religion. In modern times, Indian emigration began about 75 years ago. The chief countries to which they migrate are Ceylon, Malay, the straits settlements, British Guiana, Trinidad, Jamaica, Fiji, Mauritius, Zanzibar and the British dominions of South Africa, Canada, Australia and NewZealand. The character of this migration, however, is quite different from that of its ancient counter-part. Indians have generally emigrated under a system of contract for five years to work in the mines and plantations in return for passages, wages, boarding and lodging etc. This is known as the *indentured system.*

The Indian problem in South Africa:

The lot of these emigrants has been generally very sad. In South Africa, especially, all sorts of humiliations have been poured upon the Indian immigrants for a very long time. Indians are known as 'coolies', and they

are practically looked upon as a segregated race unfit for ordinary gentlemanly treatment. A vivid description of the humiliating conditions of existence of Indians overseas can be found in the Auto-biography of Mahatma Gandhi. The passive resistance campaign of Gandhiji resulted in the Gandhi-Smuts Pact under which the South African Government promised to redress the principal grievances of Indians. But the hopes raised were soon blasted. The colour bar became gradually accentuated. Legislations were passed to prohibit the entry of wives and children married under religions which allow polygamy, to segregate Indians to definite territories and to prevent Indians from acquiring landed property. A license-tax of £3 on all Indians was also introduced, recalling the jizya-tax of the Moslem rulers. Recently, another Bill was proposed prohibiting Asiatics, (excluding Japan) *from* employing European women. The bill provoked bitter opposition from the South African Congress of Indians. Thanks to the intervention of Mr. Holmfyer, the Minister of the Interior, who recently led a South-African Goodwill Mission into India, the Bill has been temporarily withdrawn, though it has been at the same time asserted that the objects of the Bill will be secured by voluntary arrangements.

The Government of India keeps an Agent in South Africa to safeguard the interest of Indians. Sir Syed Raza Ali is the present incumbent of this post.

Treatment of Indians elsewhere.

If South Africa has earned a sorry notoriety by her savage maltreatment of Indian settlers, the situation in

some other British Colonies is not any more satisfactory. Conditions in Fiji were revealed to be very unsatisfactory by the report of Rev. C. F. Andrews published about two decades ago. Recently, Zanzibar has come into the lime-light by very insulting anti Indian Bills. In this case also the Rev. C. F. Andrews has done much to create public opinion in India and in Great Britain against the action contemplated by the authorities in Zanzibar. The prosperity of Zanzibar is mainly dependent upon her clove industry and Indians played the largest part in developing that industry. The action proposed by the Zanzibar Government would amount in effect to confiscation of Indian property. It is to be hoped that the Government of India will put sufficient pressure upon the Home Government by which elementary justice can be secured for the Indians who played such a large part in the economic development of Zanzibar.

Government's attitude towards the problem of Indians overseas.

The evils of the indentured labour system have long become apparent to everybody in this country including the Government of India. In 1916 Lord Chelms-ford made the following observation in the Indian Legislative Council :

"We are not going to substitute a separate scheme for indentured emigration, but we are contemplating a very different matter, viz. *the control of persons employed in recruitment.* We want to secure that *recruitment in this country is conducted under decent condition* and that on arrival in the country of their destination, *they be properly*

treated. Uncontrolled recruitment after the abolition of the indenture system should not be permitted under any circumstances."

In the Imperial war conferences of 1917 and 1918, it was agreed that each component part of the British Empire had the right to regulate the composition of its permanent population by means of immigration laws, and that any British subject was entitled to temporary residence in any part of the British Empire.

The above principles have thus given a handle to the British Dominions and Colonies to persecute Indians. Thus, so far, nothing has been done by the British Government to ease down the position of Indians.

Conclusions.

It is clear, therefore, that emigration is no cure for over population in India. Rather, to an increasing extent we have to face the problem of repatriation of Indians who, for generations, have left the shores of India for settlement elsewhere. Neither, there is much to expect from inter-provincial emigration. The remedy, therefore, must be sought both in industrialization and in birth control. The one by increasing wealth will serve to secure more wealth for the country. The other, by decreasing the growth of population, will diminish the demand for subsistence. It is in this two-fold approach that the correct solution of the problem seems to lie.

CHAPTER VII.

ECONOMIC TRANSITION IN INDIA.

A brief Historical Retrospect.

I. Before the advent of the British rule, there was an Arcadian simplicity of life in the Indian villages. Every village was more or less completely self-sufficient and isolated. The great peculiarity of the system was that the artisans were servants of the village. They got a fixed share of the produce of each cultivator in exchange for their services. This system ensured the preservation of the people of India who were unaffected by all the revolutions and political turmoils which passed over the Indian Capitals and Cities. Each village was under the management of a Panchayat consisting of the elders while there was the village headman called the *lamburdar* who was responsible for the payment of revenue. There was the *patel* or *mondal*, responsible for the maintenance of law and order, who was assisted by the village Chowkidar. The patel was also the Collector of land-revenue and for that purpose was assisted by the *patwari* or the accountant who kept the village maps, Field registers etc.

Characteristics of the old order.

Morrison points out the following characteristics of the old economic order :

(1) the prevalence of custom and status

(2) isolation of small groups of population.

(3) preponderance of agriculture and of a rural bias.

(4) imperfect division of labour.
(5) small scale cottage industries carried on by the artisans in their own homes.
(6) prevalence of barter economy.
(7) undeveloped credit and prevalence of usury,
(8) the absence and difficulty of transportation,

Characteristics of the new economic order.

The main characteristics of the new economic order, as brought about by revolutions in industry, agriculture and transport, can be enumerated as follows :

(1) The growth of *Economic Freedom.* It implies a greater *deliberateness* in the choice of an individual's occupations. It leads to more *deliberate competition* as well as to more *deliberate co-operation*.

(2) The prevalence of *contract* over *custom*, and of *competition* over *status.*

(3) The *concentration* of a *large number of people* in mammoth towns and cities.

(4) The replacement of the old *domestic system* by the new *factory system.*

(5) Concentration of fabulously large capital resources in a few fortunate hands. The gulf between the *Haves* and the *Have-nots* is getting wider and wider.

(6) The employment of *machines* and of *mechanical power* in *manufacturing* as well as in *agricultural* and *extractive industries.*

(7) Great revolutions in transport by *land*, by *water*. and by *air*.

(8) The growth of large towns and cities.

(9) The sudden transition from *local self-sufficiency* to *world economy*.

As Great Britain took the lead in inaugurating the new economic order, we shall preface our study of the Economic Transition in India by a brief survey of the Industrial Revolution in Great Britain.

THE INDUSTRIAL REVOLUTION IN ENGLAND.

Significance of the Revolution.

The Industrial Revolution in England refers to those great transformations in industry, agriculture, and transport which, according to Toynbee, began in England in 1760, and which have since been reproduced more or less in all the advanced countries of the world. The Revolution took place, first, in the spinning and weaving industries, thanks to the numerous inventions of Arkwright, Cartwright, Hargreaves, Crompton and others. Later on, it gradually invaded the whole spheres of industry, agriculture, and transport.

The significance of the Industrial Revolution for England and for the whole world has been most tremendous. Up to the Industrial Revolution, economic and social change, though continuous, had the pace of a slow-moving stream; but in the days of Watt and Stephenson it had acquired the momentum of water over a mill-dam. Nor, for all its hurry, does it ever reach any pool at the bottom and resume its former leisurely advance. It is a *Cataract* still. The French Revolution occupied a dozen years at most, but the Industrial Revolution may yet

continue for as many hundred, creating and obliterating one form of economic and social life after another.

The greatest triumph of the Industrial Revolution took place in the sphere of production and transport. The application of science to industry was responsible for a fabulous increase in output for the sale of which the capture of new foreign markets became urgently necessary. This aspect of the Industrial Revolution holds the key to the understanding of the fundamental nature of modern imperialism and war. As we shall see presently, the so-called Economic Transition in India, is itself the outcome of the expansionist policy of British Capitalism.

The dark side of the shield.

The Industrial Revolution, however, was not without its dark side. In the first place, it led to the denundation of the countryside. The old peasant-proprietor had to give way to the capitalist farmer who gave up the old methods of tillage based upon the medieval open-field system. The Enclosure Movement took a new turn, and the dispossessed rural labourer left his country home for the underground of Newcastle or the over crowded slums of Manchester or Birmingham. Secondly, the Industrial Revolution led to untold sufferings and privations on the part of the working classes. The prevalent *laissez-faire* theory prevented the state from interfering in the relations between the employers and the employed, with the result that the latter were most systematically exploited on account of their helplessness. Even women and children were compelled to work for unduly long hours for the most trivial wages. The dwelling houses of labourers

resembled more the sheep-cotes than the abodes of human beings. The search for employment broke up the family of many of the working-class people. This led to great immorality among the labourers. Accidents among the workers in the factories and mines became not very uncommon, but they were regarded with little alarm or sympathetic consideration by the employers. And above all, the hideous spectre of unemployment began to raise its head when new machineries began to displace labour. With this brief survey of the British Industrial Revolution, we pass on to the study of its repercussions upon India.

ECONOMIC TRANSITION IN INDIA.

Causes of the Economic Transition.

The economic transition in India is, in a sense, but a distant echo of the Great Industrial Revolution which originated in Great Britain. In the 17th and the first half of the 18th centuries, the East India Company was primarily concerned with the exportation of Indian Cottage products to the European markets. The Industrial Revolution, however, fundamentally altered the nature of India's trade relations with Great Britain. British industrialists became anxious to sell their factory products in the vast Indian market and to purchase some of the necessary food-stuffs and raw materials from India. This task was greatly facilitated by the *development of Railways in India* and by the *opening* of the *Suez Canal* Route. This is the most *salient* feature of the Economic Transition in India.

The other important causes of the Economic Transition can be enumerated as follows :

(1) The establishment of Pax Britannica. The establishment of law and order even in the most benighted corners of the vast country, coming in the wake of the great chaos and disorder of the pre-British days, greatly helped the process of the transition.

(2) Secondly, the spread of wéstern ideas which brought about a completely denationalised outlook on the part of the intelligentsia of the country.

(3) The immigration of Foreign Capital and enterprise into the country. British Capitalists came into India to start Railways, indigo and tea plantations, Banking and Insurance Companies, the Jute mill and Coal mining industries, and numerous other industrial and commercial concerns.

(4) Lastly, the Commercial policies pursued by the Government. At first, the Government imposed embargoes on Indian manufactured products, and granted preference to British manufactured imports and to British shipping. After 1860, the Government gradually drifted to the policy of laissez-faire which was also in the interests of the British industrial and mercantile classes.

We now proceed to give a more detailed account of the Economic Transition in India. This we study under the following heads :

(1) Transition in village.
(2) Transition in agriculture.
(3) Transition in industries.
(4) Transition in urban centres.

The Village in transition.

The isolation and self-sufficiency of the Indian Villages has been destroyed by the following factors :

(1) **Break-up of the old Village communities.** The most salient characteristic of the old economic order was the existence of self-sufficing, flourishing village communities where everyone had his own fixed part to play, and where individual justice according to prevalent notions, was more of less assured to everyone by the village Panchayat These village communities established a fine balance between individual and collective rights which was conducive to agricultural efficiency in its adaptation to social and geographical conditions.

As Dr. Radha Kamal Mukherje has pointed out in his *Land Problems of India*, "The economics of conquest has left deep marks on Indian as well as on European rural life. The influence of political authority and conquest in establishing the *feudal*, as distinguished from the *autonomous*, type of village organisation is discernible both east and west.......whether by the creation of rent-collecting land-lords as in the *Zamindari* settlement or by the Government claiming itself to be the legal owner of the soil and collecting revenues direct from the peasants, as in the *ryotwari* settlement, the village communities have shared in the common decay and the peasantry, deprived of the protection of the village system, have been reduced to individual impotence."

(2) **Administrative centralisation.** The Indian villages formerly possessed a large degree of local autonomy since the native Dynasties did not concern themselves with the individual cultivators, but regarded the

villages as a whole as responsible for the payment of Government revenues and the maintenance of local order. This local autonomy has now disappeared owing to the establishment of local Civil and Criminal courts, the present revenue and police organisation, and the operation of individual rayotwari system in many places. The development of communications has also rendered possible effective administrative centralisation.

(3) **Growth of individualism**—The corporate life of the village has also been much weakened by the development of the sprit of individualism even among the villagers. The co-operative movement and the establishment of local Boards are, of course, tending to the revival of the old ideals of village autonomy, but with a difference, because the old isolationist policy is no longer pursued.

(4) **Revolution in transport.**—The construction of a network of Roads and Railways has finally broken up the hard shells within which the villagers were confined and a closer contact has been established between the village and the town.

Characteristics of the village in transition. (*1*) *Destruction of the self-sufficing character of the village.*—The village now imports from outside many things on account of changes in standard of living and also exports many things to pay for those imports.

(*2*) *Altered status of the peasants.*—The position of the peasantry has been adversely affected in the following ways:

(a) Throughout India the undivided village common lands are open everywhere for the common use. The

Government, far from preserving these common lands for the use of the villagers, have not infrequently transferred them to individual proprietors. The appropriation of village commons has contributed not a little to the decline of live-stock in India.

(b) *Secondly*, the creation of landlordism, the conversion of occupants into full proprietors, and the emphasis on distinction between superior proprietors and under-proprietors, have been the result of the misunderstanding of the traditional Indian land distribution. The economic position of the small holder has suffered a decline, while the contrast between landlord and expropriated peasants, between the increasing class of rent-receivers and the toiling agricultural serfs, indicates a critical stage in our rural history.

(c) *Thirdly*, the system of individual assessment and collection of land-revenue has resulted in the creation of an elaborate collecting agency which has added greatly to the cost of the administration.

(d) *Finally*, the suppression of the rights of the village communities has left the peasants without economic support from their class.

(3) *Altered nature of the famine.* Formerly, famine meant scarcity of food supply in a particular village on account of the failure of the harvest. Now-a-days on account of transport development food can easily be transported from a place where it is abundant to a place where it is scarce. So famine means money famine i.e. lack of purchasing power.

(4) *Introduction of money economy.* The old barter system by which cultivators paid all their dues has been

replaced by the system of cash payments. Thus, every single transaction in the village is conducted in terms of cash.

(5) *The village population has also lost a great deal of its old stability and immobility.* The villagers can now easily move, in large numbers, to the towns where they get factory employment. This has led to great weakening of the influence of caste and status. Thus, many of the villages of India remind us of the doleful picture painted in Goldssmith's Deserted Village. The most lamentable feature of this aspect of the village in transition is the emigration of the landlords and the prosperous middle classes from the village to the town,

Transition in Agriculture.

The transition in agriculture has got four features described by professors Jathar and Beri as follows :

(1) Commercialisation of agriculture.

(2) Creation of the landless *proletariat.*

(3) Increase in subdivision and fragmentation of holdings.

(4) Scarcity of rural labour.

The commercialisation of agriculture was due to two causes.

(1) The Indian ryot ceased to produce for himself or for his neighbours from whom formerly he obtained his other necessaries of life. The peasant began to produce for the world market and thus he learnt to think in terms of cash.

(2) Agriculture became more the work of specialisation in the different regions of India. Thus Bengal

specialised in Jute, Berar in cotton, C. P. in oilseeds and the Punjab in wheat. The other aspects of the agricultural transition we take up later on when we study Indian agriculture.

Transition in industries.

In the old self-sufficing economic order, there were many rural and urban crafts which ministered to the wants of the rich and the poor alike. The Industrial revolution in India has affected practically all of them, though not in the same degree.

(1) **Transition in rural industries**—Formerly, every village had its Carpenter, Cobbler, Blacksmith, Weaver, Potter, Oilman, etc. Thanks to the competition of machine-made goods, many people who formerly plied these crafts have been compelled to leave them. The weaver has been hit the hardest by competition with mill-made cloths, both domestic and foreign. The blacksmith, the cobbler, the potter, and the oilman,—all have lost a large part of their trade. These men have either swelled the pressure of the population on land thereby leading to greater fractionalisation of holdings, or migrated to the mills and factories to secure job as factory hands. Generally speaking, those village handicrafts have survived which have been able to adopt semi-finished factory goods as their raw materials.

(2) **Transition in urban industries.**—In the old economic regime, India had many flourishing urban handicrafts some of which had attained to world-wide celebrity. The muslins and shell-bracelets of Dacca, the ivory goods of Murshidabad, the marble work of Jaipur, the silver

filigree work of Cuttack, the shawls and carpets of Kashmir, and the perfumery of Gazipur,—these are some of the famous urban crafts of former days. The economic transition in India adversely affected most of these handicrafts, some of which have now become things of mere historical memory.

Causes of the decline of old urban handicrafts.

A detailed study of the causes of the decline of the once famous handicrafts of India will be made in the chapter on Indian Industries. For our present purposes, we mention the following salient factors :

(1) The disappearance of the old Native Courts synchronising with the decline of the Moghul Empire removed the patronage which so long kept the artisans busy with their trades.

(2) The absence of the rise of an indigenous market on account of the preference for cheap foreign goods.

(3) The active competition of cheap machine-made goods seriously undermined the positions of these cottage products.

(4) Lack of financial credit, and of up-to-date tools and raw materials was a further handicap.

(5) The later policy of the East India Company which was calculated to facilitate exports of raw materials out of India, and imports of British manufactured goods into India.

(6) Government's prolonged attitude of indifference which was fortified by the prevailing laissez faire ideas.

(7) The decline of the old Trade guilds which so long functioned as benefit societies of the artisans.

But the transition in industries was not merely destructive. It had its constructive side as well. It promoted the development of large scale industries, large scale plantations, and large scale mining. Of course, the earlier phase of the industrialisation of India amounted in effect to little more than the exploitation of her natural resources by a handful of British capitalists and enterprises. But later on, Indian industrialists also have resorted to modern methods of manufacture.

Towns old and new.

The economic transition has also affected the position of towns in modern India. Many of the old towns have disappeared, while a still larger number of new towns has come into existence.

The causes of the decline of old towns.

(1) Many old towns have disappeared or dwindled in importance on account of diversion of trade routes. Thus, towns on rivers or roads have become second-rate as they are far-removed from the trunk railway route e g. Mirzapore, Sagor, etc.

(2) The decay of Cottage industries has also led to the decline of many towns like Dacca, Murshidabad, Gaya, etc.

(3) Diseases like Plague, Cholera and Malaria have also driven many people from their original urban abodes.

Causes of the growth of new towns.

(1) New commercial centres have been brought into existence by the development of Railways and Navigation. Bombay, Karachi, Madras, Rangoon, Calcutta, etc. can be cited as illustrations of new commercial towns.

(2) The growth of industries along modern lines has also brought into existence several new industrial towns like Ahmedabad and Sholapur with their Cotton Mills, Cawnpore with its woollen mills and leather factory and Jamshedpur with its iron works.

(3) Famines have also driven many people to the towns where they live as wage-earners thereby increasing the urban population.

(4) The attractions of urban life have also led the Zaminders and other rich people to settle in the towns which have consequently grown both in wealth and population.

(5) Administrative reasons have also led to the development of new towns to serve as District, Divisional and Provincial Capitals.

(6) *Lastly*, the facilities for higher education and the cultural atmosphere of the towns have also attracted students from their village homes, who naturally get accustomed to town-life and thus refuse to return to their village-home when their education is over.

Conclusion

Thus we find the economic transition in India has largely affected most of the old features of the past econo-

mic order, though the process has not yet run its full course. Professors Wadia and Joshi have styled this economic transition as sudden transition from local self-sufficiency to international exchange. This description, however, seems to be a bit over-drawn.

The medieval element in Indian rural economy is not yet a thing of the past. India has barely, passed from the first industrial revolution and the predominantly rural bias of the Indian population still remains. The forces of competition are still encountering much opposition from the forces of status. Nevertheless, the spirit of modernism is burning brightly in the country and there is hardly any doubt that every aspect of Indian economic life will be moulded after its fashion in the long run. The new wine cannot be contained within the old bottle, and the resistance to changes will ultimately break down on account of the impact of sheer economic forces.

A critical estimate of the Economic Transition in India.

The Industrial revolution in India, better known as the economic transition in India, is chronologically much later than its British counter-part. It could naturally, therefore, be expected to profit by the British experience. Unfortunately, however, in India we have allowed all the familiar evils of industrialism to appear with all their hideousness in our midst together with some peculiar evils of our own, little compensated by the benefits of the Industrialisation of Great Britain.

Industrial Revolution in India and elsewere. A comparison and a contrast.

(1) In England, the industrial revolution led to the urbanisation of the overwhelming majority of the population. In India, it has intensified the ruralisation of the population by destroying the rural handicrafts and thereby compelling the artisans to swell the pressure on land, and by denuding the country-side of its wealthier members. In England, the numerous factories, mines, dockyards and transportation services absorbed most of the rural workers. The meagre industrial development of India could employ only a very small percentage of her huge rural population. Thus, the industrial revolution had the desolating effect of a blizzard on the snug country-side of rural India.

(2) *Secondly*, the Industrial revolution in England led to great economic and social transformations. A new aristocracy emerged, the Knights and Barons of looms and factories, who challenged the old feudal organisation of society, and who with their fabulous incomes did much to adorn and enrich the different aspects of British life. In India, unfortunately, the Industrial Revolution originally took the shape of the economic domination of the people by British capital and enterprise. The natural resources of the country became ruthlessly exploited to swell the fortunes of a few Anglo-Indian families. Thus came into existence the British vested interests in India which have not only actively stood in the way of the economic regeneration of India but also have proved to be a great stumbling block on her road to political freedom. The only benefit to India from this alien exploitation has been

the employment of a few lakhs of low paid labourers. It is only in the 20th century that purely Indian industrial concerns came into existence, the only notable exception being the cotton mill industry of Bombay which was first developed in the 19th century.

(3) *Thirdly*, in India as elsewhere, the economic Transition has brought about a complete change in social values. Formerly, plain living and high thinking was the generally accepted ideal. But now-a-days, the virus of capitalism has permeated the whole social system. All, except a very small minority, are now moved almost exclusively by economic considerations. Money, more money—this has become the universal goal of life. Men are judged and respected, not so much for their learning or character, as for their wealth. In the quest of the yellow metal, moral considerations are being more and more set aside. Thus, the traditional simplicity and purity of Indian life is being gradually destroyed.

DIFFERENT VIEWS ON THE ECONOMIC TRANSITION.

(1) The views of Mahatma Gandhi.

The economic transition in India has produced different types of re-actions on different minds in India

Mahatma Gandhi for instance, has regarded it with undisguised feelings of horror and alarm. He has been much influenced by the writings of Ruskin and Tolstoy, and he pines for the good old days when the artisan sat at his work in his humble cottage, surrounded by his wife and children. According to his analysis, the root of all troubles

is the machinery. He is, accordingly, an uncompromising re-actionary, and he firmly believes that India and the world can be saved only by going back to medieval ways and methods.

This characteristically heroic solution of the fundamental problem of modern civilization, however correct it might appear in analysis, is generally regarded as impracticable by most people. In these days of close inter-knitting of nations, it is impossible for a single country to reject all modern industrial and mechanical equipments Moreover, it is open to question whether India, with her vast and ever increasing population, steeped in the direst poverty, can afford to do without mechanical appliances by which production can be largely multiplied. Lastly, the Mahatmic solution can well be criticized as suffering from distrust simply on the ground that it can lend itself to abuse, The real culprit is human nature itself. The goal of the reformer, therefore, should be to reform human nature itself rather than to reject the machinery.

(2) The British view.

British officials and non-officials have greeted this economic transition with feelings of great joy and rejoicing. They are definitely of opinion that the true solution of India's poverty lies in the rapid industrialisation of the country, and that in this process of industrialisation British capital and enterprise for sometime at least has to play a large part.

While we might agree with the first part of the British view, we record our strongest dissent from the second part.

From our past experience, we have learnt that the plea for foreign capital to expedite India's economic development has in effect amounted to little more than a plea for the continuation of the old colonial policy. India can never willingly accept the position of a milch-cow for Britain or for any other foreign country.

(3) The view of Indian Economists and public men.

Indian economists and public men are in favour of rapid industrial development which, in their opinion, holds the master-key to the solution of the stupendous problems of mass poverty and middleclass unemployment. But they want it along strictly national lines. India must not be a mere imitator of the west. She must find out means by which she can avoid the evils of the western industrialism, while retaining its benefits.

CHAPTER VIII.

AGRICULTURE.

INTRODUCTION.

The importance of agriculture in India.

(1) The importance of agriculture can hardly be exaggerated in India where nearly 70% of the total population depends directly upon land, and another 20% depends indirectly upon it for their sustenance. Thus agriculture is the most important single industry in India. It has always been so in the past, though the pressure upon land was somewhat less on account of the existence of flourishing cottage industries. And as far as we can foresee, it will always continue to be so in future.

(2) Agriculture provides not only all the food-grains and raw materials consumed in the country, but in normal years provides a large surplus for export. India is thus self-sufficient as regards her requirements of food and raw materials. This is a great advantage from many standpoints. In the first place, it saves India from the land-hunger which lies at the basis of modern imperialism and war. Secondly, it is a great asset in times of war, as India can not be starved into surrender by means of mines or submarines.

(3) India's manufactures also depend upon her agriculture in two ways. Agriculture supplies the raw materials for our industries. For example, the Indian

Cotton mill industry is possible because of the local supply of raw cotton, while the raw jute of Bengal supplies the basis for the Jute Mills of Hooghly. Moreover, the quality of our manufacture will improve with an improvement in the quality of the raw materials. E g. It will be possible to manufacture superior grades of cotton piece goods as soon as raw cotton of the long staple variety can be produced in abundant quantities. Secondly, Indian manufacturers get the largest market for their food in the home market. As 90% of the people are agriculturists, whether directly or indirectly, necessarily the overwhelming majority of the buyers of manufactured goods are agriculturists. Thus the interests of agriculture and manufacture are closely interlinked.

(3) Agriculture is the main basis of our foreign trade, and the main instrument for maintaining exchange stability. We pay for our imports of manufactured goods by exporting our raw materials and food-staffs. Moreover, we have to meet an extra obligation, known as the Home charges. This is also paid out of our surplus exports.

(4) Our public finance also depends upon our agriculture. If agriculture fails, all the sources of our income shrink. There is less revenue from land, as the ryots have little surplus. Revenue from excise, salt, and customs shrinks as the consumption of commodities falls. There is less Income-tax revenue, as all incomes become small. Railways' receipts show a deficit as there is a lesser traffic. Posts and Telegraphs show smaller earnings as people avail themselves less of their facilities. On the other hand, Government's expenditure increases on account

of Famine relief or of increased Police expenditure to combat crimes and dacoities.

The Backwardness of Indian Agriculture.

1. According to the Indian Sugar Committee, India's output of sugar per acre is less than 1/3 of Cuba's, 1/6 of Java's and 1/7th of Hawaii's. As regards cotton while the U. S. A. produces 200 lbs. and Egypt produces 450lbs., India produces only 85 lbs. per acre. And as regards wheat while England produces 1910 lbs., India produces only 814 lbs. per acre. From the above figures it must be quite apparent that the agricultural industry in India is one of our depressed industries.

Need for agricultural development.

2. The need for agricultural development is very great from all standpoints.

(1) First, it will increase the purchasing power among the masses and raise their standard of living.

(2) Secondly, it will provide increased food supply for the increasing population of India.

(3) Thirdly, it will help to develop India's manufacture by supplying a ready home market for Indian manufactured goods. It will thus directly or indirectly help all the economic groups in the country including the Government.

There can be no doubt then that agricultural improvement holds the key to an all-round national reconstruction and all projects of Economic planning for India must be tested by their bearing on the position of the Indian ryot.

Defects of Indian agriculture.

The defects can best be studied under the 4 heads: namely, (1) *Land*, (2) *Labour*, (3) *Capital*, (4) *Organisation*.

Defects of Land.

As regards land, the first thing to notice is the *climatic* condition. We have already studied how Indian agriculture is a gamble in rainfall. Of course, the helplessness of the ryot has been much lessened in those areas where artificial irrigation has been resorted to, but still a great deal of lee way has yet to be made up in this direction before conditions can be regarded as satisfactory. Moreover, the gradually decaying rivers and the change of course of some of the rivers brought about by natural or artificial causes had also an adverse bearing upon the productivity of the land in some cases.

(2) The second great defect of land is the excessive sub division and fragmentation of agricultural holdings resulting in the creation of uneconomic holdings in many cases. This one factor is sufficient to reduce Indian agriculture to a state of extreme inefficiency.

(3) Thirdly, no adequate land survey has so far been made so that no body knows the adaptability of different pieces of soil for different kinds of crops.

Finally, on account of lack of proper manure, most Indian soils have deteriorated as regards their natural fertility, though in the opinion of experts like Dr. Voelcker and Dr. Clouston the lowest point of deterioration has

been reached a long time ago, and no further deterioration is taking place today. We next turn to labour.

Defects of Labour.

The problems of labour relate first to the *ryot* himself and secondly to the *land-lord.*

I. The Indian ryot no doubt has received much encomiums from great European experts like Dr. Voelcker who have been much impressed by the diligence and industry of the peasant during the agricultural season. Nevertheless there can be denial of the fact that the Indian peasant compared to his prototype in the advanced countries of the world is very inefficient.

Causes of inefficiency.

The causes of the ryot's inefficiency are partly to be sought in his *environment*, and partly in *himself.*

(1) For one thing he is physically unhealthy thanks to his poverty, the national system of diet, the insanitary conditions of his surroundings and dwelling house, and above all, the ravages of diseases like Malaria, Kalajar, hookwarm and other tropical diseases.

(2) Secondly, the Indian ryot is illiterate and extremely conservative. His methods of agriculture are quite primitive, although those primitive methods do conceal a great deal of scientific truths evolved by the experiments of centuries. On account of his conservatism, he does not easily receive new ideas which might be spread out before him. The only remedy seems to lie in widespread dissemination of literacy especially among the women-folk who form the greatest strong-hold of

conservatism. Increased contact between the towns and the villages, use of rural broad-casting, and subtle propaganda by all conceivable methods, are alone likely to sap the foundation of conservatism in the long run.

(3) Above all, the Indian ryot is extremely fatalistic and unambitious. The uncertain nature of the monsoon and the systematic administrative exploitation of centuries have made the ryot perfectly resigned to his unhappy lot. He has no determined desire to improve his standard of living or to attain a state of financial ease and solvency. In such a back-ground all efforts to improve the productivity of agriculture must necessarily fail. Hence as the Royal Commission on Indian Agriculture has pointed out, the most fundamental problem of rural reconstruction is to improve the morale of the ryot himself. We have to inspire in him an aspiration for a higher standard of living, and the inertia of centuries can be broken only if the state in all its Departments, Agricultural, Veterinary, Education, Public health, and Executive, makes a frontal attack on this problem.

Landlord's part in rural economy.

II. Secondly, (1) The land-lord who gets his living from the land must recognise that his privileged position can only be justified by his functions. The curse of absentee land-lordism from which India suffers so acutely is only another proof of the fact that land-lordism is no more than a vicious anachronism under present conditions. The land-lord can justify his existence only by living among the villagers and showing an example in the matter of ideal farming and ideal husbandry.

(2) It is his duty to undertake permanent improvements of land, and to make rural life more attractive which alone can stop the progressive denudation of Indian villages of their comparatively prosperous inhabitants.

Defects of Organisation.

We next come to organisation.—Indian agriculture is disorganized in many respects.

(1) The lack of economic holdings and of permanent improvements is a serious defect in internal organizations.

(2) Another serious shortcoming is the fact that the ryot has practically no subsidiary industry to keep him employed during the long agricultural slack season. There is a tremendous waste of rural labour on account of the fact that the agricultural season does not normally extend over more than three or four months. The possibilities of Khaddar or Dairy farming, fruit-growing, sericulture, lac-culture, mat-making, pottery, toy-making and other rural industries should be fully explored in order to make agriculture thoroughly organized and based upon a solvent footing.

The marketing Problem in agriculture.

(3) But the major problem of organization is that of marketing. With the commercialisation of agriculture, the marketing problem has become very acute. The Indian cultivator normally does not get the full value of his own produce. He has to depend either on the landlord or upon other professional middlemen who do not hesitate to intercept the major part of the profits of agriculture. What we require to-day is to organize the market

for Indian goods after the example of Bombay and Berar Cotton markets.

Some Suggestions of better marketing devices.

(a) The possibilities of Co-operative marketing have been much emphasised by the agricultural and Co-operative Departments of the Government. Co-operative Cotton Sales Societies have already been started in Bombay, the Central Provinces and the Punjab. The principle of co-operative sale has also been extended to commodities other than cotton. Nevertheless it must be admitted that the co-operative movement in this respect has not succeeded much on account of several inherent defects and particularly on ground of inadequate finance. Other improvements in the marketing organization are also called for.

(b) There can hardly be any large scale marketing for any distant customers unless proper grading, uniformity of quality from year to year and proper packing are resorted to. The Berar cotton market is an ideal one in this respect.

(c) Marketing surveys are also essential, and for that purpose a trained personnel is essential.

(d) Another possible improvement is the provision of ware-housing facilities and the issue of ware-house certificates to the growers which should enable them to take advances against these certificates from Co-operative and other Banks. In this respect the American system of licensed ware houses and the Egyptian system of loans against cotton security are good examples for India.

(e) The Grain Elevator System, by which grading and

storing are facilitated, has also great possibilities from the marketing standpoint, though the cost is rather prohibitive.

Defects of Capital.

Finally, we come to the problem of Capital. The Capital equipment of the ryot is very miserable in as much as it consists of not more than a pair of bullocks, some iron ploughs and the necessary seeds. There is no facility for long term permanent improvements, nor even for temporary improvements. The only capital that the ryot possesses is generally working capital only ; and even here the ryot's position is so very precarious that when a bullock dies or his ploughs are broken, he has to go to the mahajan for necessary credit in order to tide over his difficulties.

The lack of capital is one of the prime causes of the low productivity of Indian agriculture. In the western world agricultural productivity has been much increased by capitalistic farming and by the adoption of scientific implements like the motor tractor and by undertaking large scale improvement in the shape of proper irrigation and proper manure.

The condition of the cattle is so very miserable that the ryot does not get from it all the benefits it could have otherwise obtained. The Royal Commission Report has greatly emphasised the need for healthy cattle for solving the problem of Indian agriculture. It is a matter of great congratulation that the first official act of Lord Linlithgow was to popularise the idea of stud-bulls in India. In a word, there can hardly be any substantial increase in

agricultural productivity unless the capital requirements both as regards fixed capital and as regards intermediate and working capital are properly met. We now proceed to discuss some of the more important specific problems of Indian agriculture. We first take up the problem of subdivision and fragmentation of agricultural holdings.

Subdivision and Fragmentation of holdings.

As we have already said, the acute subdivision and fragmentation of land is one of the major causes of agricultural backwardness of India. The term *subdivision* refers to the fact that the original farm of a particular cultivator becomes equally divided amongst his successors after his death. The term *fragmentation* refers to the peculiar way in which the share of each inheritor is determined. Instead of getting in a compact area his total share of the landed inheritance, each successor gets an equal share of each part of the total inheritance. The result is that each individual plot becomes so small that profitable cultivation becomes, in most cases, impossible. The Royal Commission on Indian Agriculture has observed that there are four distinct problems to be dealt with.

(1) The sub-division of the *Holdings of right-holders.*—This is due to the Laws of Inheritance prevalent among the Hindus and the Moslems.

(2) Sub-division of Holdings amongst cultivators — This sub-division becomes accentuated on account of the loss of economic equilibrium.

(3) The Fragmentation of Holdings of the right-holders.—This is also due to the Laws of Inheritance,

(4) Fragmentation of *Holdings amongst cultivators.* It is a much greater evil than the Fragmentation of land of permanent right-holders.

Extent of the evil.

The extent of the evil can easily be realised from the following figures as regards the size of average holdings per head. In Bihar and Orissa the tenant-holding averages less than half an acre, though the average per cultivator is 3·1 acres. In Bengal it is 3·1 acres per cultivator. In Assam it is 3 acres while in the United Provinces it is 2·5 acres. In Madras and Bombay it is less than 2 or 3 acres. As Dr. Mann has said, "In the pre-British days and the early days of the British rule the holdings were usually of a fair size ; frequently more than 9 or 10 acres, while individual holdings of less than 2 acres were hardly known. Now the number of holdings is more than double and 81% of these holdings are under 10 acres in size ; while no less than 60% are less than 5 acres."

Evils of Sub-division.

The case against subdivision and fragmentation can be summarised as follows :—

It involves a huge waste in various ways :—

First, it entails much loss of time as the ryot has to pass from one plot to another with his bullocks and other implements.

Secondly, the cost of fencing becomes prohibitive and in the absence of fencing much depredations are made by the roaming cattle.

Thirdly, Irrigation becomes difficult if not impossible, as separate wells have to be dug in all the different plots.

Fourthly, the ryot cannot establish his dwelling house in the midst of his farm which would have given him great facilities for constant watch and supervision.

Fifthly, much land is lost by way of borders between different plots of different ryots.

Sixthly, the ryot in order to make short cuts generally prefers to pass through the neighbouring field with his bullock which not infrequently occasions much bitterness sometimes ending in litigation.

Seventhly, the ryot cannot employ labour-saving devices like tractors, threshers, winnowers etc. nor can he easily move good manure from one plot to another.

Lastly, subdivision and fragmentation leads to the creation of many uneconomic holdings.

The size of an Economic Holding.

The average size of an agricultural farm differs from country to country on account of different physical, social, and economic conditions. In England, where the law of primo-geniture prevails, the average size is 16 acres, and it tends to increase on account of constant addition by purchase etc. In America the average size is 14 acres, while in Japan it is only 3 acres.

In fixing the ideal size, we have to take into consideration both the nature of the soil and the resources of the cultivator. For example, the size should be bigger on the plains than on the hill-slopes. Again, where the land is very fertile and fit for growing a profitable crop, the size

can afford to be smaller than in comparatively infertile and arid districts.

With these preliminary observations, we proceed to state the different views given by experts on the size of Economic Holdings in India.

Different Conceptions of Economic Holdings.

(1) Mr. Keatinge in his "*Rural Economy in the Bombay Deccan*" observes that an economic holding "is a holding which 'allows a man a chance of *producing sufficient to support himself and his family in reasonable comfort after paying his necessary expenses.* In the Deccan an ideal economic holding would consist of (say) forty or fifty acres of fairly fertile land in one block with at least one good irrigation well, and a house situated on the holding."

(2) Dr. Mann in his *Land and Labour in a Deccan village* defines an economic holding as "one which will provide an average family at the minimum standard of life considered satisfactory." He considers thirteen to twenty acres of dry and garden land as the economic size of a holding.

(3) According to the Baroda Committee, an ideal economic holding consists of "30 to 50 bighas of fair land in one block with at least one good irrigation well and a house situated on the holding."

(4) Prof. Jevons holds that a model holding should be determined at such a size as to enable the agriculturist to enjoy a high standard of life. He considers the requisite size to be between 20 and 30 acres.

(5) As all the above definitions are somewhat vague

in as much as there can be different interpretrations of what reasonable comforts or satisfactory standard of living might mean. Professors Jathar and Beri have suggested that economic holdings should imply optimum holdings.

The term *optimum* refers to that precarious point at which the law of increasing returns has just ceased to operate and the law of diminishing returns has not yet begun. It is the point of technological equilibrium which relates a particular size of land to a particular stage of industrial art. Productivity of agriculture must necessarily become less as soon as the size of a plot of land becomes less than the optimum size.

Possible Merits of Fragmentation.

Nevertheless subdivision and fragmentation of land is not an unmixed curse. A case for it can be made out on the following grounds :

First, when the number of plots correspond to different types of soil suitable for growing different crops in different parts of the year it gives the cultivator employment all the year round.

Secondly, it forms a sort of natural insurance for the cultivator against the chances of failure of any particular crop due to natural or economic causes.

Thirdly, It is responsible for a wide diffusion of ownership of land in the rural areas which is one of the stabilising factors cf the modern socio-political system.

Conclusions.

In conclusion, however, we must admit that the evil is overwhelmingly a reality while the good is just a

remote possibility. We agree with Dr. Mann's remark that "it has all the evils of very small holdings in that it prevents the use of machinery and labour-saving methods; and on the other hand of large holdings, in that it hinders the adoption of really intensive cultivation by hand-labour; which is the great advantage of the small holder."

Causes of Sub-division and Fragmentation.

(1) The causes are primarily to be traced in the *laws of inheritance and succession* by which the property of the predecessor is divided into equal parts among all the successors. As these laws have been prevailing in India from times immemorial, one might ask why is it that this problem was not at all acute in pre-British days. The answer to this question is to be found in the other changes that have occurred since in the socio-political system of India.

(2) Among these changes the most important factor is the *loss of economic equilibrium.* The competition with British factory products coupled with the hostile policies adopted by the East India Company succeeded in killing most of the flourishing cottage industries which formerly gave employment to a large section of the rural population in India. With the destruction of old cottage industries and in the absence of rapid industrialisation, the rural masses had to fall back upon land as the only source of their livelihood. The laws of inheritance showed the way by which they could get hold of land and this in turn led to subdivision and fragmentation.

(3) *The growth of the spirit of individualism* associated with the introduction of Western Cultnre in India·

must also be regarded as another important cause of this evil. Under the Joint family system, the lands were cultivated in common by all the members of a big joint family. But the individualist spirit would not allow this communal cultivation, and as individual rights began to be asserted, the subdivision and fragmentation of land became a necessary consequence.

4. Last of all, we might mention among the main causes the *excessive growth of population* in India with the establishment of *pax Britannica*. As population grows, the total size of the land being fixed, the individual share necessarily becomes less and less.

Remedies of Subdivision and Fragmentation

The problem of subdivision and fragmentation is by no means the monopoly of India and other countries had also to face it and to try to solve it. In India various experiments have been made or proposed to remedy this evil.

(1) We might first refer to the Co-operative experiment which has been tried rather successfully in the *Punjab Canal colonies*. The success of co-operation, however, has been due to certain *special* factors in the situation. First, the population there is homogeneous. *Secondly*, the system of land tenure is simple, and the area in question is comparatively new. Moreover, it has checked fragmentation rather than subdivision. As regards the latter some check has been imposed by restraints on alienation and in some cases by conferring inheritance on a single heir. It is clear that co-operation cannot be a universal solution of this problem.

(2) Permissive legislation has been tried in Baroda but it has been a dead letter from the very beginning. In the central provinces a *Consolidation of Holdings' Act* was passed in 1928 enabling not less than half of the permanent tenure-holders owning not less than 2/3 of the total area to combine together in an act of consolidation which would have a binding effect on the rest and on their successors. At present this experiment is limited to one division only.

(3) In Bombay, Mr. Keetinge drafted a Bill in 1916 to enable tenure-holders to reconstitute permanent impartible economic holdings.

Tho Bill, however, was never introduced on account of adverse criticism. In 1927 the Bombay Small Holding Bill was introduced in the Bombay Legislative Council. It envisaged a machinery for prescribing a standard unit of cultivation, all units below which were to be declared as fragments and it restricted alienation of fragments except in the interest of consolidation. It also contemplated consolidation of existing fragments. The Bill, however, was thrown out because it was alleged, it involved an element of compulsion and also because it would lead to the creation of a vast landless proletariat.

Conclusion

Such then is the brief history of the main experiment made in India for this purpose.

(1) The main solution in our opinion is likely to come from a restcration of economic equilibrium by pursuing an all round recovery-plan for India involving rapid industrialisation and the revival of Cottage Industries.

(2) The Egyptian custom has been suggested for Mahomadans by which the land is cultivated by only one of the heirs on behalf of every one, while for Hindus the joint cultivation system has been suggested by which all the members of a family would cultivate in common and then distribute the produce among themselves.

(2) It is clear that some amount of compulsory legislation would be necessary, but as the Royal Commission on Indian agriculture has pointed out, legislation should be a supplement to education and not a substitute for it. A great deal of propaganda is necessary to convince the ryot about the merits of consolidation.

How other Countries have met this evil of Sub-division.

The problem of sub-division of agricultural holdings is by no means the monopoly of India. Other countries have had to face it in the past, and they have made their own solutions,

(1) Austria has recognized the principle of hereditary indivisibility of farms which are exempted from claims for debts.

(2) In Italy the state advances loans against the mortgage of land, and thereby promotes the formation of economic holdings.

(3) In Japan there is a permissive legislation which enables a certain majority of the land-owners in a village to apply for forcible re-allotment of land, each man obtaining a consolidated block approximately equal in value to the pieces of land surrendered by him.

(4) Egypt passed the five Feddan Law to restrict sub-division beyond the size of an economic holding. According to it, "although land is normally divided amongst the heirs, it is actually left in the hands of one to cultivate on behalf of the whole number or may be handed to trustees to manage for all.

II. EXPORTS OF FOODSTUFFS AND RAW MATERIALS.

I. Arguments for and against exports of foodstuffs.

(1) Certain critics have suggested that there should be a prohibition of the export of foodstuffs having regard to the fact that many Indians do not obtain enough food for their consumption. It is suggested that if exports were forbidden, the domestic supply would increase, the price would fall enabling the people to consume more.

The above view, however does not seem to be valid :

(1) Export of foodstuffs forms a small fraction of the total output and as such its retention within the country will not have much effect on the prices.

(2) Again it has been suggested that artificial lowering of the prices of foodstuffs might induce the cultivator to resort to the production of non-food crops—which would naturally defeat the purpose of the policy of restriction. This argument, however, does not possess much force in India on account of the ignorance and conservatism of the peasantry.

(3) Our principal argument against the policy of restriction is that it would prevent the cultivator from getting the benefit of the world-price without bringing about corresponding benefit to the consumer ;

(4) And that the real remedy lies in increasing the purchasing power of the masses by an all-round recovery-plan.

(5) The Fiscal Commission argued that the normal export surplus provides a great natural resource upon which India can

fall in times of emergency. This view, also, seems to be incorrect as a great emergency is likely to be so much disturbing that the normal export surplus will not suffice to meet the situation. We are, therefore, not in favour of artificial restrictions of the export of foodstuffs.

Exports of Raw Materials.

Arguments for restriction.

The unrestricted export of raw materials has been criticised on the following grounds :

(1) It leads to the substitution of non-food-crops for food-crops on account of the higher price of raw materials. This might ultimately lead to a genuine shortage of food-supply.

Secondly, the high price of raw materials places Indian manufacturers at a disadvantage in their competition with foreign manufacturers. If exports were prohibited the price of raw materials would fall and that would facilitate the rapid industrialisation of India It is a pity that foreigners find it profitable to buy raw materials from India and then to turn them into manufactured goods which they sell in India in defiance of Indian manufacturers.

Thirdly, the production of heavy non-food crops like oil-seeds leads to the progressive deterioration of the natural fertility of the soil and this is a serious calamity in an agricultural country like India where little scientific manuring is practised.

Arguments against restriction.

The above argument, however, does not seem to be very sound.

As regards the *first* contention, although substitution is possible and actually has taken place to some extent, these is no reason to believe, having regard to the ignorance and conservatism of the peasant, that there will be any large-scale movement from the production of food-crops to that of non-food crops, so as to imperil the natural food supply of the country.

As regards the *second* argument, we might observe that it is extremely unjust to deprive the peasant of the full-value of his output for the sake of Indian manufacturers. If industrialists are to be helped, there are various other methods open to the Government than the suggested one of lowering the price of raw materials by artificial restrictions.

Finally, as regards the *third* contention we might observe that expert agriculturists like Dr. Clouston have repudiated the idea of a progressive deterioration of the inherent fertility of the Indian soil. Of course, if oil-seeds could be utilised for manurial purposes, things would be quite all-right. But then the remedy, in the opinion of the Agricultural Commission, lies in the development of the oil crushing industry.

Conclusions.

We thus conclude that there should be no compulsory restriction of the export of Indian raw materials, though a moderate duty on oil-seeds export may be justified.

Nevertheless one cannot feel happy with the present situation. The right use of Indian raw materials will be made only when they will be absorbed by Indian manufacturing industries. Till then India's economic status will

be no better than that of those colonies which export raw materials and import manufactured goods.

III. PROBLEM OF IRRIGATION.

The importance of Irrigation in India.

Agriculture, as we have already seen, has always been by far the most important industry in India, maintaining to-day, whether directly or indirectly, about 90% of the total population. The peculiar nature of the Indian monsoons has always rendered artificial irrigation necessary. Even in the Hindu and Moghul Period of Indian history, enlightened rulers never failed to recognise the imperative necessity of artificial irrigation. The British Government, with greater scientific knowledge at its disposal, is thus carrying forward an old tradition of the country only in a more systematic manner.

We sum up below the main reasons which lend an exceptional importance to irrigation in India.

(1) As there are some parts of India which get *only a nominal amount of rain-fall* throughout the year, these places could not be cultivated at all without the help of Irrigation e. g. Sind, Rajputana, parts of the Punjab.

(2) Again there are tracts where the rain-fall is uncertain *and precarious*. Here also agriculture can not be pursued as a normal occupation, without artificial Irrigation.

(3) Rain-fall everywhere is irregularly distributed throughout the seasons. Hence artificial irrigation is essential for raising a second or third crop.

(4) Intensive cultivation or the cultivation of certain heavy commercial crops requires artificial irrigation.

(5) Irrigation, by raising the productivity of the soil, serves to increase the value of land, thereby improving the financial position of the ryot.

(6) Irrigation renders possible the absorption in agriculture of an increase in population.

How to prevent wastage of water.

The problem of Irrigation is not merely one of increase of water supply to areas which are not regularly and adequately served by Nature, but also one of avoiding wastage of water. This can be done in the following ways :

(1) *By afforestation.*

"Forests regulate the flow of rivers, prevent floods, and furnish springs with a perpetual supply of water. Nature maintains through ferests the moisture necessary for the life of men and beasts."

(2) *By the preservaiion of rain water.*

A great deal of rain-water is wasted on account of the lack of proper preserving methods. This waste is also accompained by constant erosion of the surface soil which results in a great loss of fertility.

(3) *By dry Farming.*

It is possible to preserve the moisture of the soil in dry tracts by a proper selection of crops.

Development of Irrigation in India.

The part which irrigation plays in the rural economy of different provinces varies greatly from Province to Province, but it is of chief importance in Sind, the Punjab, the North West frontier Province, Madras, United Provinces

and Behar and Orissa. On an average during the five years from 1921 to 1925 nearly fifty million acres were irrigated by Government and private irrigation works. Practically half the total area irrigated is irrigated by canals, the remainder being irrigated by tanks, wells and other sources.

Classification of Irrigation works in India.

Irrigation works can be classified under three types :

(1) **Wells including tube-wells.**

(2) **Tanks.**

(3) **Canals.**

I. Well-Irrigation.

Well-Irrigation is one of the most ancient and familiar forms of Irrigation in India. It accounts for about 30 per cent of the total irrigated area of India. There are about 2½ million wells scattered in the different parts of India, which have been dug at a total expense of Rs. 100 crores. These wells are of all kinds, varying from mere holes in the ground to elaborate masonry structures of great width and depth or tubes of small bores from which by power pumping large supplies of water can be obtained.

A peculiarity of wells is that they mostly represent *private enterprise*, though the Government sometimes assist their construction by making takkavi advances or by exempting the improved land from extra assessment.

There is a great scope for the extension of well irrigation in almost all the provinces of India. As an instrument of irrigation, wells are even more valuable than canals. Where individual holdings are too small to

permit the individual sinking of wells, co-operation might furnish the necessary solution.

II. Tank-Irrigation.

With the exception of Sind and the Punjab, tanks are found in all the provinces of India. They are of various sizes, ranging from the great lakes constructed by the erection of dams across rivers to the small village tanks. Madras possesses more tanks than any other province in India, the total number being over 35,000 serving nearly 3 million acres. Tanks, like wells, are chiefly the results of private enterprise.

III Canal-Irrigation.

Irrigation canals can be classified under three heads:

(1) **Inundation Canals.**

(2) **Perennial Canals.**

(3) **Storage Canals.**

(1) *Inundation Canals* obtain their water directly from the rivers. This is possible only where the river water reaches a certain level. Most of the canals in Sind and in the Punjab are of this type, and they receive their waters from the Indus and the Sutlej respectively.

(2) *Perennial Canals* are generally built in the regions served by the Himalayan rivers which flow throughout the year, as they are fed by the perpetual snows on the Himalayas. These canals are built by putting a barrage across the rivers, and thus they are independent of the water-level reached at any time. The canals in the U. P. and the Punjab are of this type. The Sukkur Barrage in Sind, which is the world's largest work of its

kind, has also been made into a a perennial canal with the help of a barrage.

Storage Canals.

Storage Canals are formed by erecting a dam across a valley to store the rain-water during the monsoon. The water, so stored, is distributed in the neighbouring areas with the help of canals. Storage Canala have been built chiefly in the Deccan, the Central Provinces and Bundelkhand.

At present Canals are the most important form of irrigation works in India, and they account for about one-half of the total irrigated area of India. At first, it was thought that large irrigation Canals, like Railways, could be built by private enterprise. Accordingly in 1857 the Madras Irrigation Company was formed to execute the *Tungabhadra Project*, while in 1860 the East India Irrigation and Canal Company was floated to carry out the *Orissa Canal Project.* Both the Companies, however, came to grief. Since then all canal Irrigation works have been undertaken by the Government.

Among the irrigation canals, whether existing or under construction, can be mentioned the following: the Sutlej Valley and Sutlej Dam projects in the Punjab; the Sukkur Barrage in Sind; the Sarda Canal in the U. P.; the Cauvery Mettur project in Madras; the Khadak Wasla Dam and the Lloyd Dam in Bombay; and the Damodar Canal in Bengal.

Official Classification of Irrigation Works.

Until 1921, Irrigation Works in India were divided into two classes : (1) Major works, and (2) Minor works.

I. Major Works.

Major works again were divided into (a) Productive Public Works, and (b) Protective Public Works.

(A) Productive Public Works.—These were expected within ten years of their completion to yield sufficient revenue to meet their working expenses as well as the interest charged on the capital required for their construction. The capital for such works was generally provided out of loans. Most Government Irrigation works were of this type. Altogether over Rs. 92 crores have been spent on these works.

(B) Protective Public Works.—These were not expected to pay their way. They were designed as a protection against famine, and as such their cost was provided out of current revenues or by appropriation from the Famine Insurance Grant. The capital outlay on these works at the end of 1929-30 was Rs. 44 crores.

II. Minor Works.

The Minor works involved the maintenance and extension of old indigenous works, or the construction of new small works. They were financed out of current revenues.

Minor works again were of three types :

(a) Those for which neither capital nor revenue accounts were kept.

(b) Those for which both revenue and capital accounts were kept.

(c) Those for which only capital accounts were kept.

Since 1921, however, the old classification has been abolished. Irrigation works are now classified as either

productive or protective. As protective works also may save the Government from expenses on famine relief, the rational classification should be thus : (1) Productive works ; and (2) Unproductive works.

Irrigation versus Railways.

The irrigation policy of the Government had been, much criticised towards the close of the 19th century.

(1) It was pointed out that whereas irrigation was a greater insurance against famine than Railways in that the former prevented the occurrence of a famine, while the latter could at least mitigate its hardship, the Government by 1902 spent only Rs. 38 crores on irrigations as against Rs. 370 crores on Railways. The controversy has lost much force now-a-days,

(1) Partly because the Government has undertaken since many big irrigation projects.

(2) Partly because Railways until recently have become profitable propositions and

(3) Lastly because the complementary nature of both has become clearly realised.

The main problem now is to devise the best system of distribution and of prevention of waste,

The Indian Irrigation Commission were of opinion that it would be of great advantage both to Government and the cultivators if the latter could be induced to take over their supplies at the outlet thereby relieving the canal administration of all further responsibility.

Recommendation of the Royal Agricultural Commission.

(1) The Royal Agricultural Commission, recommendends the setting up of irrigation panchayats for management of field distributaries.

(2) The Commission also recommends closer relations between the agricultural and the irrigation departments.

(3) It also recommends the establishment of a central bureau of imformations for irrigation the main fuctions of which would be to establish and maintain a comprehensive library of irrigation publication and to act as a clearing house of information needed by Provincial officers.

(4) The scientific staff of the Indian universities should also assist in the solution of irrigation problem for which Geological, chemical or mechanical knowledge is required.

(5) The troubles arising in the irrigated tracts of India in regard to water-logging and the formation of alkali-lands have been due to failure properly to correlate a new irrigation system with the natural drainage of the tract. The Commission, therefore, recommends the construction of *Drainage maps* as well.

IV. THE PROBLEM OF MANURES.

Different kinds of manures

Although a great deal of careful work has been done little progress has so far been made in introducing improved manurial treatment into general agricultural practice.

(1) The most readily available supply of plant food

is of course farm yard manure ; but unfortunately thanks to the custom of using cow-dung cakes fer domestic-fuel purposes a very large amount of this is lost to agriculture. If fuel requirements could be met in other ways, a great advantage would accrue to agriculture.

(2) The manufacture of composts and of synthetic farm yard manure and, where night soil is available, of poudrette by Municipality might also help to solve the manurial problem.

(3) The possibilities of *leguminous crops* in the cultivator's rotation and of *green manure crops* should also be explored.

(4) *Oil seeds* if applied as manure in the form of cakes could give a very large supply of continued nitrogen.

(5) Another source of nitrogen is found in *sulphate of ammonia* which is available as a bye-product of coal.

(6) Lastly there are bones and bone-mills and fish manures which supply both nitrogen and phosphates.

In the above list however cowdung-cake appears to be the most easily available form of manure.

V. ANIMAL HUSBANDRY.

Importance of cattle in rural Economy.

The importance of cattle in the rural economy of India can hardly be over-estimated.

(1) They *supply milk* in a large quantity.

(2) They are also utilised as *draught cattle* both for drawing bullock-carts and for driving the ploughs. As Darling has observed, "Without them the fields remain

unploughed ; store and bin stand empty, and food and drink lose half their savour, for in a vegetarian country what can be worse than to have no milk, butter, or ghee.'

(3) Cattle are also the principal source of manure.

Inspite of, however, all these various benefits which India derives from her cattle, the *conditions* of her live-stock are not at all encouraging.

(*a*) The number maintained is much too excessive on account of the inefficiency of the cattle. While in Holland there are 38 cattle per hundred acres of cultivated land and 25 in Egypt, in India there are 67 cattle per every hundred acres.

(*b*) On account of the large number and the lack of proper fodder, the Indian cattle tend to become *under-sized.* The main problem, therefore, is that of adequate fodder supply.

(*c*) There is a shortage of fodder generally from December to July. As the cultivator seldom thinks of providing grazing facilities, the possibilities of fodder supply depend upon the existence of grazing land and neighbouring forest. Here, too, the increase of tillage and the policy of deforestation go against the interests of the cattle.

Recommendations of the Agricultural Commission :

The Agricultural Commission mentions 4 cardinal points in a policy of improvement :

(a) A reduction in the number of plough cattle.

(b) An increase in the efficiency of plough cattle.

(c) Attention to all matters that would tend to decrease the number of bullocks required for cultivation and

(d) an effort to secure better treatment for dry cows and cows-in-calf.

The two most important factors are *feeding* and *breeding*. The Commission is of opinion, so far as *feeding* is concerned,

(1) That there cannot be any large addition to existing grazing areas and as such efforts should be concentrated on increasing the productivity of the land already growing grass.

(2) Grazing on the common land could be regulated and *rotational grazing* established with the consent of the majority of the right-holders.

(3) In some cases a definite area of the common land could be separated for a village co-operative cattle improvement society.

(4) As a supplement to natural grazing, the cutting and storage of dry grass is important.

(5) The cultivation of Egyptian clover or leguminous crops also holds out great possibilities if cheapness is ensured.

(6) Stall feeding might also be resorted to.

(1) With regard to the improvement of cattle by *careful breeding*, the aim should be to establish pure and improved type of the best cattle now available and there should be no attempt to produce a *dual purpose animal* suitable both for *draught* and for *milking* purposes.

(2) The Commission recommends *intensive* breeding in selected areas with the help of stud-bulls. Some progress has been made in this direction on account of the personal example and encourgement of the present Viceroy, Lord Linlithgow.

(3) Improvement of indigenous breeds by selection is a safer policy for the Agricultural Department to pursue than cross-breeding.

(4) The control of live-stock improvement should also be entrusted to the Agricultural Departments of the Provincial Government while Pusa will co-ordinate researches and tackle all-India problems.

Diseases of Cattle.

The loss of cattle on account of diseases only is also another recurring evil in India and serves to bring the

cultivator within the clutches of the Mahajan. The recorded figures indicate that the number of deaths is very considerable and that *Rinder-pest* takes the largest toll. Apart from losses by death extensive indirect losses occur from the large-number of cattle *temporarily incapacitated* by disease.

The outstanding problem is that of *control of contagious diseases.*

Recommendations of the Agricultural Commission.

(1) Contagious diseases must be controlled by measures designed to protect the individual animal rather than by those which aim at stamping out the source of infection. The Commission recommends the adoption of the *serum simultaneous method*, in place of existing *serum alone* method which confers immunity only for a fortnight while inoculation should be generally with the cultivators' consent. It should be compulsory for all animals kept by milk-sellers in large cities.

(2) Veterinary staff should be enlarged and a Contagious Diseases of Animals' Act should be passed for ensuring uniform procedure.

(3) The Commission recommends the establishment in each District of a Central Veterinary Hospital with a number of Dispensaries serving the Sub-divisions.

(4) In each Province there should be a Director of Veterinary Services in administrative control of the Veterinary work of the province.

(5) The Imperial Institute of Veterinary Research at Muktesar should also be reorganized in order to give the Director more opportunities for research.

(6) The Council of Agricultural Research should also have a small standing committee to deal with Veterinary matters with powers to co-opt other members and to constitute a special Committee or a particular subject.

The State in Relation to Agriculture.

Historical Retrospect.

(1) Though the idea of official encouragement of agriculture in India first originated during the Orissa famine of 1866, it was not till 1884 that the first active step was taken by the Government by setting up Agricultural Departments and that, too, at the instance of Lancashire which was interested in the growth of long-staple cotton in India. The Departments, however, did little more than collecting statistics on account of various other responsibilities and financial handicap.

(2) The next land-mark was the visit of Dr. Voelcker in 1889 who emphasised the value of agricultural education and improvement.

(3) In 1901 An Inspector-General of Agriculture was appointed to give expert advice to the Government of India.

(4) In 1903 the Pusa Research Institute was established, thanks to the princely donation of an American visitor. In 1905 Lord Curzon gave a great impetus to the work of the Agricultural Departments.

(5) From 1908 onwards Agricultural Colleges were established first at Poona and later on at Cawnpore, Nagpur, Lyallpur, Coimbatore and Mandalay. In 1905 an All-India Board of Agriculture was founded to co-ordinate the work of different Provincial Departments.

(6) Since 1921, however, Agriculture has become a Provincial subject under a responsible minister.

The present position of agricultural research in India.

The Imperial Department of Agriculture now maintains the following Institutions:

(1) Agricultural Research Institute, Delhi

(2) The Imperial Institute of Veterinary Research, Muktesar.

(3) The Imperial Institute of Animal Husbandry and Dairying, Bangalore and Wellington.

(4) The Cattle-breeding Farm at Karnal.

(5) The Creamery at Anand.

(6) The Imperial Cane-breeding Station, Coimbatore.

(7) The Sugar Bureau at Cawnpore.

(8) Besides in 1929, according to the recommendations of the Royal Commission, an Imperial Council of Agricultural Research has been established with a capital totalling at present more than Rupees one crore. At present there are the following Standing Committees of the Council :—(a) The Sugar Committee, (b) The Fertilisers' Committee, (c) The Locust Committee, (d) The Oil Crushing Industry Committee, (e) The Joint Committee of the Imperial Council of Agricultural Research and The Indian Central Cotton Committee, (d) The Animal Nutritional Committee, (g) The Dairying Committee and (h) The Cattle-Breeding Committee. The Imperial Council, again, has been affiliated with the new Imperial Agricultural Bureau whose function is to keep Research workers in all parts of the British Empire in touch with the latest Research work in their own subject.

(9) Again Provincial Research Committees have also been started in different Provinces which work in co-operation with the Imperial Council.

(10) Finally, we might refer to the setting up of Provincial Boards of Economic Enquiry in Bengal and in the Punjab whose function also is to advise the Government as regards the right Agricultral policy.

(11) Besides Conducting Research work through various Institutions the Government has also done much by way of demonstration and propaganda. Various Exhibitions have been held of which the largest took place at Poona in 1926 to demonstrate the use of new methods and of improved implements.

(12) Again Agricultural Middle Schools have been established in some places for giving the necessary training to the sons of agriculturists. We might also mention the *Gurgaon uplift scheme* which attempts to supply a strong central driving force that will stimulate enthusiasm and provide suitable materials for active workers in their campaign in favour of the improvement of village-life. The experiment, of course, on account of its hasty nature has not fulfilled all expectations, but the sincerity of the intentions of the author cannot be questioned.

Conclusions.

The Government's part in solving the rural credit problem we shall discuss later on. But there can be no questioning of the truth of the proposition that if the inertia of centuries is to be overcome, it is essential that all the resources at the disposal of the state should be brought to bear on the problem of rural uplift. What is required is an organised and sustained effort by all those Departments whose activities touch the lives and the surroundings of the rural population. Before concluding this chapter, we must recognise that the agricultural activities of the Government have received a great impetus in the hand of the present Viceroy, though, of course, even now Japan with a population of 59 millions spends nearly five times as much as India with a population of over 350 millions spends on agricultural improvements.

CHAPTER IX.

RURAL INDEBTEDNESS.

Extent of existing indebtedness:—The problem of rural indebtedness has long been recognised to be one of the most momentous issues upon the right solution of which the happiness and welfare of rural India largely depends. Official enquires about the extent of indebtedness began with the appointment of the Deccan Ryots' Commission in 1875 which, however, confined its survey to 12 villages. Since then, the Famine Commissions of 1880 and of 1901 and individual officials like Sir Frederick Nicholson (1895), Sir Edward Maclagan (1911) and Mr. Darling of the Punjab arrived at various estimates about the extent of the indebtedness either throughout India or in some definite parts of it. The various Provincial Banking Enquiry Committees made the first systematic efforts to ascertain the extent of rural indebtedness in the different Provinces of India. According to their calculation the total amount of rural indebtedness in India stands at Rupees 900 crores, of which Assam accounts for 22 crores, Bengal 100 crores, Behar and Orissa 155, Bombay 81, Central areas 18, Central Provinces 36, Madras 150, the Punjab 135 and the United Provinces 124 crores.

The above estimates are of course not perfectly accurate. Nevertheless, they serve to give us a graphic description of the appalling condition prevailing among the dumb millions of rural India. The real cause for alarm, moreover, is not so much the volume of indebted-

ness as the fact that it is almost wholly unproductive and that it is increasing from year to year.

Causes of rural indebtedness :—The causes of indebtedness are to be traced, first, in the general causes of agricultural inefficiency in India and secondly in the environment in which the ryot lives. We enumerate below the principal factors, as pointed by Professors Jather and Beri, which are responsible for rural indebtedness :

(1) *Excessive pressure of the population on the land*—as more people live on land than the land can possibly bear, the income of the ryot goes below the maintenance level.

(2) *Excessive sub-division and fragmentation of holdings*—this results in the creation of a large number of uneconomic holdings.

(3) *Lack of subsidiary occupations* in the agricultural slack season due to the decline of Cottage industry—This also results in diminished income.

(4) *The Ill-health of the ryot*—sickness due to Malaria, Influenza, Kalazar and other diseases results in enforced idleness on the part of the ryot with the corollary of diminished income.

(5) *Insecurity of the harvest*—This is primarily due to the uncertain character of the Indian monsoon which has got all the proverbial caprice of an Indian Potentate.

(6) *The loss of Cattle*—Due to disease and famine. As the ryot hardly enjoys a surplus of income over expenditure, he has to go to the *mahajan* before he can replenish his stock of cattle.

(7) *Depreciation.*—Though the implements of the ryot are very crude and modest, even they become useless in course of time. And as no Depreciation fund is annually set aside, the purchase of fresh tools and cattle entails fresh loans from the *mahajan*.

(8) *Love of litigation.*—The decline of the Joint Family system and the individualist bias of the British administration have made the peasants highly litigious. Petty disputes which formerly were easily settled by the village panchayat are now referred to the law courts for solution resulting in increased indebtedness of the disputants.

(9) *The improvidence and extravagance of the ryot* :—Though normally the Indian peasant is very frugal, he spends rather lavishly on ceremonial occasions like daughter's marriage, sradh ceremony etc. This extraordinary expenditure, though perfectly natural in view of the ryot's social status, is not warranted by his economic position. The Bengal Banking Enquiry Committee, however, does not attach much importance to this factor.

(10) *Ancestral debt.*—A large part of the indebtedness of the ryot is really hereditary in its nature. The social traditions and custom of succeeding generations acknowledging and paying the debts of forefathers have been exalted into a legal doctrine of the "pious obligation" to pay an ancestor's debt, enforcible in law courts. Even when no assets pass and debts are not legally inherited, the debt is generally treated by the son or the heir as a debt of honour by force of tradition.

(11) *Increased credit of the ryot* :—The establishment

of British rule in India has resulted in the increased borrowing capacity of the ryot on account of the increased value of his land. As the increased prosperity has not been accompanied by an improvement in the morale of the ryot, the result has been greater extravagance ultimately resulting in further indebtedness.*

(12) *The village shylock and his 75%* :—The village-money-lender has been the chief banker of the peasants from times immemorial.

The money lender, a dangerous necessity.

Before the British rule, however, he could not be much exacting on account of two causes :

(*a*) The existence of the village panchayat which protected the individual debtor from the rapacity of the creditor.

(*b*) The absence of state protection of the creditor's right.

With the disintegration of the commercial life of the village and the establishment of the Civil Court for the enforcement of contractual rights, the creditor's position has improved ; while the debtor has become reduced to helplessness. The money-lender has not been slow to seize this golden opportunity. He began to lend lavishly to the ryot in times of scarcity, and courteously declined repayment when repayment was easy thereby landing the ryot in a hopelessly entangled position. And then he threw off the veil, asserted his right with the result that land began to be transferred from the ryot to the money-lender. The rates of interest charged are generally very high, the maximum recorded being 1840% in a Punjab

village. Finally the money-lender has also sometimes been found guilty of wilful defalcation of accounts.

Nevertheless, the money-lender is not an unmitigated curse. He is the only oasis of thrift in a desert of improvidence. He is the only man who helps the ryot to tide over his emergencies under all circumstances. He has been called the *Jater Mahajan* and the *Pater Mahajan*, i e. the protector of his caste and the giver of his bread. The high rates of interest charged by him can at least partly be explained by the fact that he can hardly expect repayment of his loan from his client or at least any punctuality in the payment. The unpopularity of his calling must also be regarded as another cause of the high rate of interest ; and finally wherever he is the sole fountain of credit, it is only human that he should try to exploit his monopolistic position. The real solution lies not in the elimination of the mahajan but in the establishment of alternative credit Institutions.

13. *The land revenue policy of the Government* : The land revenue system under the British rule has been regarded by certain Indian Public men including officials like the late Mr. R. C. Dutt as one of the main causes of rural indebtedness. It has been said that the land-tax in the temporarily settled areas has been too harsh.

Land revenue, instead of being the appropriation of the true economic surplus of the land, has actually been a charge upon the ryot's bare necessaries of life. As the Famine Commission of 1901 observed "In good years the cultivator has nothing to hope for except bare subsistence and in bad years he falls on public charity.

As regards the permanently settled areas, though the incidence upon the land-lord is rather light, the actual tax-burden of the ryot is generally heavier than in the temporarily settled areas. The oppressiveness of the land-revenue is due not only to the heaviness of the levy but also to the lack of elasticity in its collection.

The Government, however, in its famous *Resolution* on the land-revenue policy of the Government published in 1902, tried to refute the suggestion that the land-revenue was a cause of indebtedness. It maintained that the land-tax under the British Government was much lower compared to the Moghul assessment, that it was being progressively reduced, that famines in India were due to natural causes over which no Government could have any control, and that the improved economic position of the ryot was being neutralised by large increase in population.

State policy towards rural indebtedness.

Whatever the elements of truth in the Government's contention, there can hardly be any doubt that things are not as just as the Government likes to make out. Enquiries in Bardoli and other places show that the present land-revenue policy is highly defective and unjust and as such it must be regarded as one of the main causes of rural indebtedness.

Since the outbreak of a series of severe famines in the last half of the 19th century, the Government's attention has been devoted more and more to the scientific study of the problem. The Deccan Ryot's Commission and the Famine Commissions of 1880 and 1901 carried on investigations into this problem. The Government's action

following those enquiries have been classified by Professors Jather and Beri under the following heads :

(1) Measures for the prevention of unproductive debts.

(2) Measures for the legal protection of the ryot.

(3) Measures for debt-conciliation.

(4) Measures for preventing the alienation of land.

(5) Measures for supplying cheap credit.

We now proceed to discuss the actions of the Government under the above headings :

1. Measures for the Prevention of unproductive debts.

(1) In order to prevent the accumulation of unproductive debts, the essential requisite is the spread of education among the rural people. It must be confessed that the Government's performance in this regard is not at all a creditable one. There is a lamentable lack of literacy among the rural people. The suspensions and remissions of land-revenue in times of scarcity are also another device for the prevention of indebtedness. But the method is not sufficiently elastic. Finally, the postal savings banks are also calculated to promote thrift among the rural people. But all these devices are of very limited efficacy so long as the appalling poverty of the masses remains unchanged.

2. Measures for the legal protection of the ryot.

The legal system of the British government, based on ideas of contract rights, at first gave much handle to the creditors of the ryot. The realisation of the helplessness of the ryot, however, led to some legal enactments for his protection against the creditor's vindictiveness.

First, some *alterations* were made in the *Code of Civil Procedure* as regards the execution of *decrees* against agriculturists. Agricultural tools, cattle, and housing materials were exempted from attachment. The ryot's person was also exempted from arrest following a court decree. The ryot was also given the facility of instalment payment.

Secondly, the *Deccan Agriculturists' Relief Act 1879* allowed the Courts to go behind the contract, and to modify it in favour of the agriculturist, if necessary, to prevent sale of land unless specifically mortgaged, and to restore the land to the ryot even when there was a sale deed between the two parties The Act made it obligatory on creditors to furnish accounts and grant receipts, and required mortgages to be in writing. The Act, however, inspite of its good intentions, became ineffective and even promoted litigation and affected the credit of the ryot.

Thirdly, the *Usurious Loans Act* as amended in 1918 and 1926 determined the maximum and minimum rates of interest, enabled the Court to re-open old transactions in order to ascertain their equity, as also the debtor to draw the creditor into the Court. This Act has also been practically a dead letter in many provinces.

Fourthly, the *Punjab Regulation of Accounts Act* makes it obligatory on all money-lenders to use regular account books and to furnish each debtor every six months with an account showing the outstanding amount as well as all loan transactions in that period.

Fifthly, as regards the licensing of money-lenders, though it is desirable it is neither practicable nor likely to

yield the desired results. There are many people who are not professional money-lenders. Nevertheless, they do money-lending business. It is difficult to bring them within the clutches of the law.

3. Measures for Debt Conciliation.

As the ryot staggers under an overwhelming burden of indebtedness, the Central Banking Inquiry Committee recommended the appointment of special officers for the purpose of bringing the creditor and the debtor to an amicable settlement of the debts at a much reduced figure, to be paid off either as a lump sum or by means of equated payments. Legislation for the purpose of setting up Conciliation Boards has been already passed in the Punjab, the United Provinces, the Central Provinces and Bengal as well as in some Indian states like Bhavnagore, Mysore and Travancore. There is a growing conviction that the present voluntary principle should be replaced by the compulsory principle.

4. Measures for preventing Land Alienation.

The Punjab Land Alienation Act enjoins that land shall never pass from father to son or from debtor to creditor unless the latter also is an agriculturist. But the result has been that poor ryots have practically become members of the landless proletariat and a class of money-lending peasants has come into existence.

5. Measures for supplying cheap credit.

(1) *Takkavi loans* Acts have been passed from time to time to enable the Government to give direct help to the ryot. But these loans were never popular, and accord-

ing to the Irrigation Commission of 1901, the total amount lent under this heading was Rs. 6 crores only.

(2) In 1883 *The Land Improvement Loans* Act was passed sanctioning long term loans for permanent improvements on land, such as wells, embankments etc.

(3) In 1884 the Agriculturists' Loans Act was passed sanctioning short term loans to the ryot for the purchase of seed, cattle, implements etc.

Both these loans, however, have proved to be efficacious only to a limited extent, as they are restricted to specific objects, as the system of distribution is characterised by official lethargy, and as the method of collection is very rigid.

Thus direct loans from the Government to the ryot have not gone much to relieve the ryot, though of late, some changes in the official procedure have been made to make the loans more elastic. The Mahajan still lies safely entrenched behind his money bags, while the victims of his silver bullet lie all around in heaps.

Lastly, we might mention that the Government has initiated the co-operative Movement in order to induce the people to help themselves. The importance of this movement is sufficiently great to warrant a fresh Chapter.

CHAPTER X.

CO-OPERATIVE MOVEMENT IN INDIA

HISTORY OF THE MOVEMENT

German Origin of the Movement

The co-operative movement first originated in Germany under the leadership of two outstanding personalities named Raiffeisen and Schulze-delitsch. Both of them were philanthropists who were deeply stirred by the appalling poverty of the masses. The former was concerned with the agricultural classes while the latter interested himself in the problem of the urban artisans. The characteristics of the two types of co-operation shall be studied later on. But the fundamental principles are the same in both the cases.

The meaning of Co-operation

'The theory of co-operation is, very briefly, that an isolated and powerless individual can by association with others and by moral development and mutual support, obtain in his own degree the material advantages available to wealthier and powerful persons and thereby develop himself to the fullest extent of his natural abilties.' Co-operation in its technical sense seeks to eliminate all the evils of capitalism by making the employees their own employers in a collective capacity, by removing the dependence on middlemen and on bankers on the part of ordinary workers. The co-operative spirit is applicable to all the branches of economic life, though so far no thorough attempt has been made to realise it in all its varied forms.

Origin of Co-operation in India

The main impetus for starting co-operation in India came from the stupendous problem of rural indebtedness. The various Takkavi Acts, the Land Improvement Loans Act of 1883 and the Agriculturists' Loans Act of 1884,—all had failed to give genuine relief to the ryot because of their hopeless inadequacy and their element of red-tapism. The grip of the Mahajan thus continued unabated.

In 1883 at the instance of Sir William Wedderburn and Mr. Ranade, some of the capitalists of Poona formed a Committee for setting up a bank for financing the ryots of the Purandhar Taluk. A capital of Rs. 10 lakhs was raised, and the Government promised certain facilities and concessions as regards the working of the proposed bank. The scheme moreover, met with the approval of both the Bombay Government and the Government of India. But the then Secretary of state turned down the scheme, as in his opinion it was both financially unsound and unnecessary.

In 1884 the Viceroy in a Dispatch to the Secretary of state for India emphasised the necessity of a private bank for replacing the money-lender, but no fruitful result came out of this representation.

A few years later, the Madras Government entrusted Mr. Frederick Nicholson, one of its ablest civilians, who had made a special study of the land banks in Europe, with an inquiry about the feasibility of starting some forms of agricultural banks for relieving the ryot of his staggering burden of indebtedness. Mr. Nicholson published his famous Report in 1895-7. In that Report, Mr. Nicholson strongly advocated the starting of co-operation in India as the only possible solution of the rural credit problem. He observed that conditions in India were not far different from those prevailing in Germany

at the time of the introduction of co-operation; that land mortgage banks were suitable only for large cultivators of whom India had very few; that the Government would not start such banks, as its resources were not adequate to the demand of the ryots, as there would be too much official interference which would be demoralizing to the borrower and odious to the creditor, and as it was impossible to satisfy the chief test of credit, namely proximity and safety to the lender, and facility to the borrower.

In 1899 the Madras Government, after receiving the Report, declined to take any action thereon, as in its opinion, the problem of rural credit was not at all urgent. This amusing decision seems to make a nonsense of its own previous action in setting up the whole Enquiry, and is a very illuminating illustration of the mysterious peregrinations of the official mind.

Meanwhile Dupernex, another civilian of the United Provinces had published a book entitled *the People's Bank of India* wherein he also advocated co-operation. Both this book and Nicholson's report now attracted widespread attention. A few civilians in Bengal, the Punjab, and the U. P. now started some Co-operative Banks in their own district on their own initiative. But it was realised that these Banks could not function properly under the existing Joint stock companies' Act, and that special legislation was necessary for that purpose.

In 1901 the Famine Commission lent its authoritative support to the idea of starting co-operative rural Banks of the Raiffeisen type. In the same year Lord Curzon set up a Committee under Sir Edward Law. The recommendations of that Committee were incorporated in a Bill introduced in the Imperial Legislative Council in 1903 which became the Co-operative Credit Societies' Act of 1904.

The First Stage : The Act of 1904 : Its main provisions

Co-operation was officially set up in India with the passing of the Act of 1904. The Act was restricted mainly to *credit co-operation* of the *primary* type.

(1) Any ten persons could form themselves into a registered co-operative society, provided they came from the same village or tribe or clan. Credit societies were rural or urban according as four-fifths of the members were agriculturists or not.

(2) In the case of *rural* society the *liability* was *unlimited*, while as regards *urban* society, the matter was left to the *discretion* of the society.

(3) The whole profit of rural societies would normally go to the *Reserve fund*, which was reduced to one-fourth in the case of urban societics.

(4) There was provision for raising share-capital in the case of urban societies, but no individual's shares were to exceed one-fifth of the total or the value of Rs. 1000.

(5) Every member had one vote only.

(6) The capital in the case of rural societies was to consist primarily of deposits from members, and secondly of loans from outside besides ordinary fees for admission etc.

(7) Loans could be given to *members only*, but *punctuality* of repayment was insisted upon.

(8) The *period* for repayment was much longer in the case of rural societies compared to the urban ones.

(9) The Government appointed a *registrar* with his subordinates in each province for guidance and inspection.

(10) The Government also granted certain concessions such as, exemptions from income-tax, stamp duties and registration fees ; priority over the ordinary creditors of members

next to land-revenue; free Government audit and some monetary help.

Underlying principles of the Act of 1904

The Co-operative Credit Societies' Act of 1904 was obviously based upon the fundamental principles of the Raiffeisen and Schulze-deltisch types of primary credit banks. The spirit and the purpose of the Act can therefore best be grasped after a previous study of the characteristics of the two original models.

Characteristics of the Raiffeisen Society

(1) *Limited area* of operation. Generally there is one bank for one village. This is necessary for ensuring proper supervision over the borrowers.

(2) *No shares* or very small shares. This is the fundamental principle of co operation which distinguishes it from Joint stock companies where share-holders are moved by *profit motive* rather than by *service motive.*

(3) *Unlimited liability.* This is also another distinctive feature of co-operation. One for all and all for one—This is the co-operator's motto.

(4) Loans for *productive purposes only* and to *members only*, as far as possible.

(5) Loans for *fairly long periods* with facilities for repayment by *instalments*.

(6) All profits to go to the *permanent Reserve-fund.*

(7) Democratic management, and honorary administration.

(8) Advancement of *moral as well as economic well-being* of members.

Characteristics of the Schulze-Delitsch type

These societies are meant for the urban artisans, and as such they are more *business-like* than the Raiffeisen

society. The characteristic features can be summed up as follows :

(1) Wider area of operation.

(2) Predominance of share capital.

(3) Limited liability.

(4) Loans for short periods only.

(5) A small reserve fund.

(6) Payment of dividends.

(7) Paid administration. Employment of efficient servants.

(8) Emphasis on the *business* side rather than the *moral* side.

Primary Societies in India and Germany : A comparison and a contrast.

Like the Raiffeisen societies in Germany, the rural credit societies of India are based upon the principles of *proximity*, *simplicity*, *elasticity*, *solidarity*, *facility*, and *thrift*. The ordinary ryot can easily understand the procedure of the society, and also can procure the necessary loan provided he can convince his neighbours about his honesty and repaying capacity. This is all in line with the co-operative spirit.

But with these points of similarity, the Indian credit society differs from its European model in the following respects :

(1) Loans are granted for some unproductive purposes, such as expenses on marriage and *sradh* ceremonies. This deviation could not be helped, as the expenditure on such occasions is compulsory according to social mandates, and the absence of accommodation on these occasions would drive the ryot into the clutches of the Mahajan against whom the whole co-operative Movement is primarily directed.

(2) In some rural societies, notably in the Punjab, shares are issued. This has been found to be necessary in order to

swell the capital resources of the society. Ordinarily, the capital of a rural society is made up of the deposits of the individual members. In India, the peasants are so very poor that they can hardly save any thing which they can deposit with the village bank. Hence the necessity of issuing shares.

(3) Rural societies in India usually do not grant loans purely on personal credit. They also insist on some form of security as a guarantee of repayment. This feature makes Indian rural societies resemble more the land mortgage banks than the co-operative societies proper.

(4) Rural societies in India are far from being democratically managed. There is too much of official intervention and official control. This defect could be avoided if the communal life of Indian villages had been revived, and all the elements of local leadership were harnessed to the cause of co-operation.

The Second Stage : The Act of 1912 :

The Act of 1904 was revealed by experience to be too narrow, as it sought to confine the co-operative movement to purely credit societies. By the operation of natural forces various secondary bodies such as guaranteeing unions and central banks, as well as non-credit co-operative societies came into existence which, however, did not receive official recognition.

Accordingly, in 1912 a new Act was passed in supersession of the old Act, which gave official recognition to the complex types of co-operative societies which had already come into existence. With the passing of the Act, the Movement entered on the *second* stage of its progress.

(1) Besides primary societies, the Act recognised *three* types of co-operative central societies :

(a) *Unions*, whether guaranteeing or otherwise.

(b) *Central Banks*.

(c) *Provincial Banks*.

(2) The Act also recognised non-credit forms of co-operative societies.

(3) As some amount of share capital had entered into unlimited rural societies, permission was granted to declare dividends with the previous approval of the Government.

(4) The old distinction between rural and urban societies was replaced by a new distinction between limited and unlimited ones.

Though, however, the Act of 1912 recognised co-operation in all forms, the preponderating element in Indian co-operation has always been credit. This is but natural not only because credit is the simplest form of co-operative endeavour that can be introduced among a largely illiterate rural population, but also because credit continues to be the most insistent need of the Indian cultivator, who is weighed down by the burden of usury and chronic debt which crush the "life and thought" of rural India.

The Third stage : Recommendations of the Maclagan Committee

With the publication of the classic report of the Maclagan Committee on co-operation in 1915, the movement entered on its *third* stage of development. The Committee, while emphasising the importance of rural credit societies, insisted upon sound co-operative and business-like principles for inculcation among members.

(a) The principles laid down are as follows :

(1) Knowledge of co-operative principles.

(2) Honesty in administration.

(3) Dealings with members only.

(4) Loans not for speculation.

(5) Careful scrutiny and strict vigilance before and after making advances.

(6) Ultimate responsibility to rest with members and *not* office-bearers.

(7) Promotion of thrift and formation of a good reserve fund.

(8) Only one vote for one man.

(9) Capital to be raised preferably from the members and their neighbours only.

(10) Punctuality of repayment.

(b) The Committee further recommended somewhat higher rates of interest on deposits from members in order to promote the habit of thrift. Deposits should also be encouraged to be long-term rather than short-term.

(c) The Committee also emphasised the importance of *thorough* audit and supervision in order to prevent bad management and embezzlement, and to inspire the confidence of the investing public.

(d) Finally, it is to be noted that it was largely as a result of the recommendations of the Committee, that Provincial Banks were established in almost all the Provinces.

The Fourth stage : The Reforms Act of 1919

The movement entered on the *fourth* stage of its development with the inauguration of the Montagu-Chelmsford constitution. Since then it began to be administered by the responsible ministers of the Provincial Governments. The first effect was a large addition to the number of societies all over India,

although, of late, *consolidation* rather than *expansion* has become the key-note of the movement.

The Fifth Stage

The fifth and the final stage of the movement may be said to have been reached with the establishment of the Reserve Bank of India in 1935. The Provincial co-operative Bank has become statutorily linked with the Reserve Bank in various ways. For instance, the Reserve Bank has been allowed to purchase, sell, and rediscount agricultural Bills and Promissory Notes endorsed by a Provincial co-operative Bank ; drawn for the purpose of financing seasonal operations, or for the purpose of the marketing of crops ; and maturing within nine months. Unfortunately, however, the Reserve Bank has not so far adopted a more liberal policy for helping the co-operative movement through its Agricultural Credit Department. The Committee, recently set up by the Reserve Bank for investigations and recommendations, has come to the conclusion that nothing further can be done to help the rural societies unless they prove themselves to be credit-worthy.

Different types of Co-operative societies :

(1) Primary Agricultural credit society :

Constitution and Function

The financial structure of Co-operative credit is based upon the Primary societies and the greatest expansion of the co-operative movement has taken place in this direction as in 1933-4 the total number of primary credit societies was 78,758 with a total capital of Rs. 33,98,77,937. They are associations of borrowers and non-borrowers, consisting of the residents of the locality who know one another and may

naturally be expected to take interest in one another's affairs. They bring together persons of different status in life belonging to different creeds and castes, into a common economic organisation and help to foster the true spirit of co-operative brotherhood.

Every resident of a village, provided he is a person of good character, is eligible for membership. As liability is *unlimited*, the tangible assets of the society consist of the property possessed by all the members thereof, the details of which are entered in the "*Property-statement*" of the society, which document, is periodically revised.

In some cases members contribute a small share capital. In the opinion of the Central Banking Enquiry Committee, the encouragement of subscription to share-capital by members as a method of collection of savings is to be preferred to a system of compulsory deposits. These societies are expected to raise locally, on the joint liability of members, capital to be lent out to the members. And whenever necessary, the local capital may be supplemented by small loans from the state, deposits from friendly non-members, and loans from Central and Provincial Banks.

How loans are to be advanced and collected.

Definite principles have been laid down in the matter of the grants, utilisation and recovery of loans ; some of which we have already noticed, while studying the provisions of the Act of 1904 (vide ante). Briefly speaking, the loans are not to be advanced for an unproductive or wasteful object. The individual maximum borrowing power of the members bears a definite proportion to the individual assets of the members, and does not ordinarily exceed 50 p.c. of the value there-of. The maximum borrowing power of the society as a whole is

also fixed as a definite fraction of the net-assets of all the members composing it.

Finally although these societies, especially the Agricultural ones, are theoretically based upon the principle of unlimited liability, in practice, as Mr Calvert has explained, the loss in a co-operative society will fall *firstly* on the member, *secondly* on his sureties, *thirdly* on the reserve, *fourthly* on the share-capital, *fifthly* on the unlimited liability of the members and *finally* on the creditors of the society.

The management of the society.

The management of these societies is democratic and honorary. There are two managing Bodies ; namely, a *General Committee* consisting of all the members ; and a *Managing Committee*, which is a smaller body consisting of 5 to 9 members elected by the General Committee from among its members at its annual general meeting. The Managing Committee is responsible for the routine and executive business of the society. The General Committee, however, retains control over the budget and the fundamental business of the society. There is also a paid secretary to the society. The object of the society is to prevent the cultivator from falling into the clutches of the mahajan as also to rescue him from his overwhelming burden of indebtedness. The last object, however, is quite impracticable in as much as these primary credit societies can lend only short term and intermediate credit, and that too, within very definite limits, whereas indebtedness can be removed only by long term credit of a rather large amount.

Disputes between a society and its members are submitted generally to arbitration as legal proceedings would be very costly.

Finally, as regards dissolution of an unworthy society, necessary powers have been given to the Registrar, though it is to be hoped that such powers would be exercised sparingly.

Non-agricultural credit society.

Although the co-operative credit movement primarily came into existence for conferring financial relief on the peasant, the need for similar facility for the non-agricultural classes came to be felt from the very beginning. The example of the Schulze Delitsch type of credit society came to be copied in the organisation of these societies. We now proceed to indicate briefly the principal types of Non-agricultural credit societies prevailing in India at the present moment.

(1) *Peoples' Banks*—These institutions are meant especially for the benefit of the middle class people especially in those areas which suffer from a deficiency of joint stock Banking. With their help local trade is being developed or fostered in areas where otherwise population and industries are dwindling, and small artisans and citizens in every walk of life are acquiring the Banking habit.

(2) *Thrift and life insurance societies* :—They promote thrift by collecting the savings of the people and investing them in the best possible way. Some of these societies also deal with Life insurance business. They are much developed in Madras.

(3) *Artisan societies*—They seek to confer on artisans the same benefits which Agricultural societies do to the ryot. Here membership is open to the followers of a particular occupation and the liability is unlimited. So far, a few credit societies have been organised for basket-makers, pot-makers, black-smiths, carpenters etc. There is a great scope for the development of such societies in aid of Indian Cottage Industries.

(4) *Societies for Mill-hands* :—The problem of indebtedness is as much severe for the factory-hands as for the ryots. The ordinary labourers fall into the clutches of the jobbers in the absence of proper credit facilities. The social service league in Bombay has organised some societies for the benefit of factory workers. The illiteracy and the migratory character of labourers, however, is a great obstacle.

(5) *Societies for depressed classes* :—In Madras and Bombay some credit societies have been organised by the Social Service League and the Servants of India Society for the amelioration of the conditions of the so-called untouchables. Here, too, there is a great scope for development.

(b) *Societies for clerks* :—The employees of large firms and of Government Departments especially in the lower-grade are generally involved in debts as they try to maintain the middle class standard of life with very small income. Credit societies, wherever they have been formed, thus supply a genuine need. There is a clear case for the establishment of such societies among the school teachers and the under-paid lecturers of private colleges.

(7) *Communal societies* :—Credit societies based on communal lines should be discouraged ; as thereby the whole spirit of the co-operative movement is likely to be destroyed by the inoculation of the communal virus.

Non-credit agricultural movement.

Experience in Europe specially in Denmark has proved that agriculture can gain in many respects besides credit from the co-operative movement. With the help of co-operative societies peasants can dispense with middlemen of all sorts, and purchase agricultural tools, manures, seed etc. at reduced prices and sell their products at a reasonable price. Thus the

non-credit agricultural movement aims at the elimination of the middleman from the first stage to the last. In India a great deal of progress has yet to be made in this direction before the peasant can reap all the benefits he might have obtained from co-operation in this wider sense.

Nevertheless, here and there some start has been made. For instance, we have got some *Cattle Insurance societies*, *Cattle breeding societies*, *fencing societies*, *Co-operative Irrigation societies*, *Land Improvement societies*, *Dairy societies and societies for the consolidation of holdings*, though so far only a beginning has been made. As Dr. Clouston has said : "The good work done by the cotton sale societies in Bombay, the Irrigation and milk societies of Bengal, the co-operative seed societies and Dairy societies in the Central Provinces ; and the societies for the consolidation of holdings, clearance of silt in canal and sale of farm produce in the Punjab, encourages one to hope that, given the necessary organising staff, co-operation will play, in course of time, as great a part in assuring the cultivator of the full return of his labour, as it has in providing him with cheap capital." To fulfil the promise of co-operation however, much closer co-ordination between the Agricultural and Veterinary Departments on the one hand, and between the Agricultural and the Co-operative Departments on the other hand, is necessary.

Multiple-purpose vs. single-purpose society.

Divergent views have been expressed as regards the feasibility of starting multiple-purpose Co-operative societies even where members for one purpose are not necessarily those for other purposes. The Maclagan Committee, for instance, observed, 'Most forms of agricultural non-credit societies, and specially those for the supply of seed and implements can,

in our opinion, best be combined with credit societies.' The main arguments for such a multiple purpose society are two-fold : (1) the lack of competent officers for the several societies of a particular area, (2) the greater concentration of efforts which holds the promise of greater success.

On the other hand, there are critics who have pointed out the demerits of this system. The Central Provinces Committee, for instance, have objected to such amalgamations because "Failure of a form of Co-operation for which the people are not ready may prejudice a form which would otherwise be successful." It is further objectional for a society with unlimited liability to embark upon any functions involving financial risk. The Committee, however, do not object to the multiplication of functions of limited liability societies, or to the combination of better living or better farming societies with societies of unlimited liability. Similarly, the Madras Committee recommended that selected co-operatives should also carry on village sanitation and village improvements.

Non-credit non-agricultural society.

These societies have also got to play a very large part in the economic regeneration of the artisans and the lower middle classes.

The main types prevalent in India are briefly enumerated below :

(*1*) *Artisan society for purchase and sale* :—As the Maclagan Committee has observed, successful attempt have been made to arrange for the purchase of yarn and silk for weavers, cane for basket-makers, timbers for carpenters and implements for several industries. There is an excellent field for co-operative endeavour in this direction in the cotton hand-loom industry.

(*2*) *Unskilled labourers' societies*—In Madras we find some

co-operative societies which undertake contracts for earth-work, Road-repairs, etc. The scope for such work, however, is strictly limited. Moreover, a great deal of opposition has to be faced from the vested interests of private contractors.

(3) *Co-operative stores* :—Co-operative stores as a device for eliminating the middleman in our ordinary day to day purchase have made the greatest progress in England where the Rochdale pioneer's society and the co-operative whole sale society have got branches almost throughout England. In India, however, the progress achieved in this direction is unsatisfactory, there being only a few successful co-operative stores like the Triplicane stores of Madras and the Railway stores in the United Provinces and Bombay. The main reasons for the comparative failure of the movement are want of loyalty on the part of members, absence of good management, the small margin between whole-sale and retail prices and absence of a large class of people with settled incomes and well-planned expenditure.

(4) *Housing societies* :—Co-operative housing has played a very large part in the solution of the housing problem of British labourers. In Bombay there is a Co-operative Housing Association under whose auspices a number of housing societies has been constituted for the benefit of the middle class people. There are four main types of housing societies :

(1) *Land societies*—which only purchase the building plot for their members.

(2) *Mutual Benefit lending societies*—which build houses on a co-operative basis with the ultimate purpose of transferring ownership to the members.

(3) *Tenant co-partnership societies*—by which houses are jointly built and jointly owned and maintained, the necessary

funds, coming from the shares held by members and loans raised on the security of the Joint property.

(4) *Societies for hiring and purchasing houses*—which seek to rent houses to factory hands at a cheap rate.

Having discussed the main types of Primary societies, credit and non-credit, agricultural and non-agricultural, we now proceed to consider the higher types of co-operative organizations in the co-operative hierarchy. The three main types are :

(1) Unions,
(2) Central Banks,
(3) Provincial Banks.

In 1933-34 there were altogether 878 Unions with a total working capital of affiliated societies amounting to over Rupees 27 crores ; 603 Central Banks with the working capital of over Rupees 30 crores, and 10 Provincial Banks with the working capital of over Rupees 11 crores.

We now proceed to give a more detailed account of the three main types of co-operative central societies.

I. CO-OPERATIVE UNIONS : DIFFERENT TYPES.

A union consists 5 or more societies usually situated within a maximum radius of 5 to 8 miles from the union head quarters.

A union committee, consisting of the representatives of the various member societies, manages its affairs. The functions of the union consist of supervising the affairs of the member societies, and forming a link between the Primary societies and the Central Banks. Unions came into existence as the requisite trained personnel for the work of supervision was not available in every village. These unions

are local supervising agencies, representative of and responsible to the constituent societies. The Maclagan Committee on Indian co-operation, which studied the working of the movement during 1914-15, urged that the local union, especially in areas where primary societies were financed by banks with wide areas of operation, served as a valuable agency for decentralizing supervision and for securing mutual control. The Royal commission on Indian Agriculture also observed that the success achieved in securing federal control through local unions was satisfactory enough to merit the extension of the system and its furtherance by the grant of state-aid.

Unions can be either,

(a) *Guaranteeing union*—as in Bihar and Orissa and Burma, or

(b) *Supervising union*—as in Madras and Bombay, or

(c) *Banking union*—as in the Punjab.

(A) The Guaranteeing union.

It combines the function of supervision with a system of guarantee. The guarantee extends to the outside borrowings of constituent societies. This guarantee and the work of supervision were supposed to be closely inter-connected, the guarantee being worthless without any mutual control, and the work of supervision being considered effective only with the sanction of the guarantee behind it. In practice, however, the guarantee has proved wholly illusory in the provinces in which it was tried, and Bombay, the central Provinces and Berar abandoned the institution more than a decade ago. In Bihar and Orissa, some guaranteeing unions still exist, but they do not form an integral part of the financial structure.

(B) Supervising unions.

Unions for supervision were first started on a large scale in Madras and are now an integral part of the co-operative financial structure of that province. Bombay also adopted this type of unions after its abandonment of the guaranteeing union. The principal duties of the unions in both the provinces are to supervise the working of affiliated societies, to promote the interests of their members, to see that the accounts are in order, to assist in preparing statements of credit, to stimulate the recovery of loans, to promote the spread of co-operative education and to help in organizing co operative activities for purposes other than credit.

The membership of a union is generally confined to 20 to 30 primary societies, and in area it rarely exceeds a Taluk. The union appoints committees which meet very frequently, and depute individual members or sub-committees to visit weak or defaulting societies and to assist them in all sorts of ways. But the principal work is done by paid supervisors who are being given the necessary training for their work.

In the Punjab, Bengal, the central Provinces and Berar, and the U. P., there are no supervising unions, though there are provincial controlling federations. As these provincial unions are not federations of local union, they do not derive strength from the organized forces of local unions and in some of the provinces, the requisite cementing force is supplied by the Registrar of co-operative societies.

II. CO-OPERATIVE CENTRAL BANKS

The necessity for such Banks.

The need for Co-operative Central Banks in India arises primarily out of the fact that our rural credit societies are

seldom self-sufficient in the matter of capital, and as such they are under the necessity of borrowing from abroad the capital needed for granting loans to their members. As it is hardly possible for isolated village banks to raise the necessary loan from joint stock Banks or from other sources, the necessity arises of creating special institutions which will act as an intermediary between the rural co-operatives on the one hand and the money market on the other. The Co-operative Central Bank is the most important of such special institutions.

As Dr. J. P. Niyogi has pointed out in a recent article, in Germany, Central Banks were established to balance the excess or deficiency in the capital of primary credit societies. In this country, on the other hand, the need for Central Banks was felt not so much for balancing surpluses as for supplying capital to credit societies that were started with little or no owned capital.

It was felt from the very outset that Co-operative Central Banks should not be started unless some progresss was achieved by village banks. In 1907 Mr. Wolff expressed the opinion that time was not yet ripe for starting Central Banks, and that it would be better for the future of the movement to build up from below. But very soon it came to be realised that Central Banks were necessary not only for giving financial aid to village societies but also for supervising and organizing their work. Accordingly, the co-operative Societies' Act of 1912 was passed recognising various forms of central co-operative Institutions.

Different types of Central Banks.

At first Central Banks were of *two types* :

(1) The *capitalistic*, and (2) the *purely co-operative*.

The capitalistic banks were just ordinary joint stock

banks in which share-holders were individuals having little or no connexions with the borrowing village societies whose assets they never tried to appraise and to whom they lent money on the recommendation of the Registrar of co-operative societies. These banks were naturally unpopular and they either went out of existence or changed their character in the course of a few years.

The pure type of co-operative banks, on the other hand, was based entirely on co-operative principles. Here the share-holders were the ordinary village banks. But these banks were in advance of their times, and they were much handicapped on account of both paucity of capital and lack of proper business capacity.

As both the *capitalistic* and the *pure* types of Central Bank were found to be unsuitable, the Government groped its way to a *mixed* type under which Central Banks could secure the services of individuals outside the co-operative organisation. According to this plan, the shares of Central Banks were divided into two classes : (1) Preference shares which could be held by individuals, and (2) ordinary shares to be held by affiliated societies. It is this mixed type which predominates in Bengal, and as many as 70 out of a total of 118 Central Banks are of this type.

Besides the central credit Banks of the standard type, there are other *special* central societies in the different provinces of India. For example,

(1) In the Punjab, there are 1 central Industrial Bank, 5 industrial unions and 3 weavers' unions exclusive of 33 other non-credit unions.

(2) In the united Provinces, there are 5 agricultural supply societies, 2 industrial unions and 1 sale union, exclusive of one industrial federation.

(3) In Bengal, there are 6 milk unions, 1 wholesale society and 10 Industrial unions, exclusive of 2 propagandist unions and 1 Central Bank for irrigation societies.

Capital resources of Central Banks.

The resources of Central Banks consist of their own share capital and Reserve funds, deposits of various kinds, Provident and saving deposits, over-drafts and short term loans from Imperial Bank and some Joint stock Banks, and loans and advances from the Provincial Bank and sometimes from other central and co-operative Banks.

The position of Central Banks in some Provinces has become so stable that Municipalities, Local Bodies, Universities and other quasi-public bodies are allowed to deposit their surplus fund with them. These Central Banks are required to maintain adequate fluid resources to meet the depositors,' claim, the standard being fixed by the Registrar.

Recommendations of the Central Banking Enquiry Committee

In order to protect the depositors' interests, the Central Banking Enquiry Committee recommends that the limited liability of the share-holders should be coupled with a reserve liability of the face value of the shares. It also recommends that Central Banks should start a bad-debt fund carrying a reasonable amount of the profits to that fund in addition to the statutory allocation to Reserve fund in order to provide against losses which may arise from part of the fund invested in Primary societies ultimately proving irrecoverable.

Area of operation

The area served by each individual Co-operative Central Bank is not at all uniform. It varies from province to province,

and even within a particular province. Generally speaking, it may be said that except in Bengal, Bihar, Orissa and the United Provinces, the district is the unit for the Central Bank. As Mr. H L Kazi has observed, the questions of the personnel and of the area of operations are closely inter-connected It may be difficult to find a good personnel for running a pure type of bank, if its area is wide and its business is on an extensive scale On the other hand, for a bank with a small area and restricted operations, it is difficult to find a better personnel than representatives of primary societies from among the local public not otherwise connected with the movement.

Central Banks and individual borrowers.

During the earlier days of the Movement, there was a lively controversy on the question of Central Banks having direct undertakings with individual members. The Maclagan Committee condemned the idea, and the loans due by individuals now constitute less than 2% of the total working capital of Central Banks. These consist either of previous loans still under recovery or fresh advances by some banks to members against their deposits with them The latter practice is not at all objectionable, as it amounts to a prepayment of a part of the deposits, and also helps to attract depositors to a bank Central Banks also occasionally advance loans against agricultural produce This type of business is certainly not suited to the nature of Central Banks. In the opinion of Mr. Kazi it is permissible only in centres where there are no urban banks or primary societies which can take up this business, and when the Banks (central) concerned have actual surplus funds on hand, after fully providing for the needs of their constituent societies

Central Banks are not allowed to handle other types of business with private individuals for the following reasons :

(1) The staff that is trained for examining the credits of rural societies may not be competent to form any correct estimate of the financial credit of private individuals.

(2) *Secondly,* if relations with individual members are

started, there will be no progress towards the federal form of organisation.

How Central Banks can grant loans.

The main functions of Central Banks are, therefore, closely connected with the numerous village banks over which they preside. "In India, where more than 60% of the resources of primary agricultural societies are derived from central financing agencies, these latter institutions not only have a vital interest in the financial safety of the primary societies to which they provide credit, but they more than any other agency within the Movement, are in a position to ensure that the suggestions made and the directions (given) will be carried out " As a matter of fact, in most of the major provinces of India, Central Banks are interesting themselves in the work of inspection The task of inspection generally involves enquiries regarding the security provided by borrowing societies and their financial strength

As regards loans, it is laid down that village societies holding shares in Central Banks shall be entitled to a maximum amount of accommodation equal to ten times the actual paid-up value of shares held Within this maximum, the actual amount of loan is determined by the normal credit of a village society which is the sum total of the normal credit of all the individuals comprising a particular society "The normal credit of an individual member represents his annual recurring expenses for seeds, manures, payment of labour and maintenance of family." During the last economic depression, Central Banks committed a great mistake in investing short term deposits in long term loans, with the result that a large part of their working capital became unrealisable Though reform measures are being adopted, recovery can only be slow and difficult.

III. PROVINCIAL CO-OPERATIVE BANK

The Importance of such Banks.

Presiding over the primary societies and the central banks of a province, there are in all the provinces of British India except

the United Provinces, Provincial co-operative Banks which act as financing agencies and balancing centres to the central banks. The constitution of the Provincial Banks is governed by the same principles as that of Central Banks, and the ideal is the same in both the cases. *i.e.* Provincial Banks can be *capitalistic*, *purely co-operative* and *mixed* ; and the *mixed* type seems to be most suitable at present. Many of these Banks enjoy cash credit and overdraft arrangements with the Imperial Bank and other joint stock banks. They also get short term money and call money from many commercial banks. Money flows from the Provincial Bank to the Central Bank, and from the central bank to the rural societies and from them to the individual borrowers. "The underlying idea is that the resources of the society should be made available to thousands of small cultivators who need accommodation, thinning out the stream of the water collected, sending it in rills over a broad surface, so that irrigation may be perfect, and reaching every root to be watered."

Imperfect control over Central Banks.

Although the Provincial Co-operative Bank is supposed to control and supervise the affiliated central Banks, the actual position is somewhat anomalous as there is hardly any prohibition of dealings of Central Banks with outside banking agencies. In Madras, for instance, central banks have regular overdraft arrangements with the Imperial Bank of India, these credits being secured on the demand promissory notes of agricultural societies. Similar arrangements as regards advances on the security of Government paper prevail in Bombay and the Punjab. In Bombay the deposit of surplus funds with joint stock banks is permissible, while in the Punjab a Central Bank may lend to a Banking union in its district. The general tendency, however, is for central banks to give up borrowing from joint stock banks or inter-lending among

themselves, and to regard the apex bank as their only link with the wider money market

The apex Banks, in their turn, specially in Bombay, the central Provinces and Berar have been trying to ensure unity in policy and uniformity of practice among the different central Banks But in the performance of this task, these institutions have to face many difficulties and to overcome the natural aversion to outside intervention arising out of want of appreciation of the meaning and value of federal control. So long the only co ordinating agency has been apparently the Registrar of co operative societies who has been empowered to exercise control over all co-operative Societies. But the need for some form of federal control through a federal organisation, so essential to the healthy growth of the co-operative movement, can not be supplied by an individual officer, however, able, not responsible to the movement. Nor is there any ground for thinking that the Registrar is technically always qualified to offer the required guidance That is the reason why the Punjab Government appointed a banking Adviser to the Provincial and central co-operative banks of the province. In other countries, this unifying element is supplied by the national banks or national federations themselves In India, although centralization is repugnant to the trend of co-operative development, the need for some measure of unification is being increasingly realised "Without some measure of unification the co-operative movement in the different provinces will not be in a position to develop to its fullest capacity, to withstand the oposition of powerful organised banking interests and to secure due recognition from the Governmet"

Idea of an All-India Institution

The Maclagan Committee Recommended the establishment of an All-India Co-operative Bank to co-ordinate the co-operative activities of the different provinces and to serve as an apex bank for the different Provincial Banks In the present stage of our co-operative development, however, such a central institution seems to be neither practicable nor desirable. The necessary unifying and co-ordinating agency can be found in the Indian

Provincial Co-operative Banks' Association, the All-India co-operative Institutes' Association and the Reserve Bank of India

A general evaluation of the co-operative movement in India.

Achievements of co-operation

Over 30 years have passed since the co-operative movement was introduced in India and it is now possible to point out both its *failures* and its *achievements*. It is indeed very easy to condemn the movement as rural India is not flowing with the milk and honey which was anticipated by the original pioneers and early prophets. Nevertheless, it is possible to point out some solid achievements on the *credit* side.

(1) The most cheerful side of the picture is the *general reduction in the interest rates* of money-lenders wherever co-operation prevails. The cheaper credit made available by co-operative societies has resulted in much saving, estimated by Miss Hough at about 3 crores of Rupees. On the other hand, it is quite possible that the attraction of a cheaper credit has tempted the more improvident into greater embarrassment.

(2) *Secondly*, it has *fostered the Banking habit* among the people and the little amount of hoarded wealth among the rural people is being gradually coaxed into fruitful employment. Co-operative Banking with a total working capital of over Rs. 99 crores has now become an important factor in the money market of the country.

(3) *Thirdly*, co-operation has promoted the *habit of thrift.* Though doubts have been expressed by several Provincial Banking Inquiry Committees on this point, the Bengal Committee is certain that "the greatest benefit that this movement has imparted to its members is the inculcation of

the virtue of thrift." The development of Insurance societies and the increased use of the "home-saving boxes are hopeful signs in this respect.

(4) *Fourthly*, co-operative societies serve as a *good training ground* for their members in business methods and leadership. The last objective is not properly fulfilled on account of too much official interference.

(5) *Fifthly*, co-operative societies have sometimes made a large contribution to *charitable* and public health purposes. The *Ganja* cultivators' co-operative society, for instance, has maintained three charitable dispensaries and one well-equipped veterinary dispensary for the welfare of the poor ryots.

(6) *Sixthly*, *Agriculture*, India's prime industry. has *benefited* in a variety of ways from co operation. In the Punjab, co-operative societies for the consolidation of agricultural holdings have been remarkably successful Co-operative Irrigation Societies in Bengal, Land Reclamation Societies in Madras, Better Living societies for discouraging un-necessary expenditure, Arbitration societies for reducing the amount of litigation, and Better farming societies,—all these different forms of co operative activity have conferred much benefits, direct and indirect, on the Indian agriculturist. Above all, co-operation has rendered easy the work of the Agricultural Department. "It has provided the means whereby each improved variety of seed can be obtained from the government farm for each village over large areas, it has enabled the purity of the seed to be maintained and the best price to be secured for the produce, it has placed within the easy reach of the cultivator cheap manure and implements tested and approved by experts ; it has supplied to cattle breeders bulls of superior strains for the improvement of the village herds ; and it has provided the means by which useful information can be disseminated." In

short, co-operation has helped the peasant to realise the ideal of *better farming*, *better business* and *better living*.

(7) *Again*, factory labourers, artisans, Depressed classes as well as some of the lower middle classes have been benefited in various ways. Co.operative Housing schemes, for instance, have been a great boon to the factory hands.

(8) *Lastly*, co-operation has conferred great *intellectual and moral benefits* on the rural people. It has brought about a feeling of unity among the masses who have been divided by all sorts of distinctions of caste and creed.

As Lord Lintithgow has observed, "Mere *numbers* are not a measure of success in co-operation. *Quality* is the test and qualities are to be measured as much by the extent to which membership improves the general outlook of the individual members as by any betterment that it may effect in his economic conditions."

Increased openness to suggestions of improved methods of production is certainly an important product of the movement. Moreover litigations and extravagance, drunkenness and gambling are all at a discount in a good co-operative society. The movement has awakened in some cases a keen desire for education and higher standard of living. In short, the co-operative movement might easily result in a revival of the old corporate life of the villages, of "an antique world, when service sweat for duty, and not for praise."

Defects of the movement.

When all is said and done, however, we cannot be bind to the signal *failures* and *short-comings* of the movement :—

First—All the *benefits* that we have just enumerated have been realised *only to a very limited extent*. Co-operative credit has met some amount of prosperity only in those regions

where the monsoon is normal. In other regions overdues are highly excessive.

Secondly—Audit has been generally *defective* owing to the lack of trained auditors, hence cases of bad management and embezzlement are not rare.

Thirdly—Co-operative finance has been inelastic, dilatory and inadequate.

According to the various Provincial Banking enquiry Committees, Co-operative credit societies have been responsible for 2 p.c. of the total credit in Bihar and Orissa, 5·3 p.c.. in Bombay. The result is that the cultivator who is a member of the credit society has to resort frequently to the money-lender as well for accommodation. The remedy for these defects lies in fixing the credit limit of each member in advance of the season; and in making arrangements for securing the necessary finance in time. Moreover co-operation in itself cannot remove the huge agricultural indebtedness of the country for which land-mortgage Banks, as we shall see in the next chapter, are essential.

Fourthly—Agricultural credit has been *too costly* in as much as most of the capital of the Primary societies has to be borrowed from outside at a higher rate of interest. We might also observe in this connection that the policies pursued formerly by the Imperial Bank of India and now by the Reserve Bank are not calculated to give the movement the necessary amount of support.

Fifthly—The co-operative movement is still predominantly a credit movement. In 1929-30 credit societies represented almost 85 per. cent. of the primary societies. Consumers' co-operation, producers' co-operation, and co-operative marketing,—all these phases of the movement have been exceedingly disappointing.

Sixthly—The development of co-operation has been much handicapped by the illiteracy and lack of proper business experience of the average member, the shortage of funds at the disposal of primary societies owing to the abysmal poverty of the people, and the unhealthy dependence of the major branch of the movement upon climatic conditions.

Seventhly—The lack of trained office-bearers and general ignorance about co-operative principles, have been a still further handicap.

Lastly—The most fundamental defect of the co-operative movement is that it has been so far *not so much a movement as a Government policy.* In Europe co-operation has been successful, because it was a spontaneous action of the people themselves, who were conscious of its fundamental principles as also of its great benefits. In India, on the other hand, what has been established, has been by *Government initiative*, kept in order by *Government audit*, and really financed by *Government credit*, because funds came from the people who as a rule would not entrust their money to the Banks unless they knew that the Government was behind them. Again Government officials who technically were appointed to help and guide the Co-operators have been virtually Dictators, imposing their will in every minute detail.

The Registrar of the co-operative societies has been virtually its *Brahma*, *Vishnu* and *Shiva*. Nevertheless there can hardly be any doubt that the ultimate salvation of Rural India largely depends upon the complete realisation in practice of the co-operative ideal. Fascism, Bolshevism, Nazism, all these "isms" worship the God of force who in Italy, wears a Black shirt, in Germany a Brown and in Russia a Red shirt. There is no clean white shirt among them, "whereas we learn from the Apocalypse that the armies

of Heaven are clothed in fine linen, white and clean, and are led by a Commander called faithful and true. In her great co-operative Commonwealth, India will point the way to the brotherhood of man, and the Federation of the world, when men shall beat their swords into ploughshares and their spears into pruning hooks, and when Nation shall not lift up sword against nation, neither shall they learn war any more." (Sir Daniel Hamilton)

LAND MORTGAGE BANKS

The necessity for Land mortgage Banks in India.

We have already seen that the Indian ryot requires mainly *three* types of credit: *Short term* credit, *intermediate* credit and long term credit. So far as the first two types are concerned, the co-operative credit societies, if properly organised, might grant the necessary facilities.

Long term credit, however, involving as it does the locking up of a large amount of capital for a number of years, cannot with safety be supplied either by the co-operative societies or by the Commercial Banks. Thus arises the necessity for special financial Institutions for this specific purpose. It has been proposed that land mortgage Banks can serve this special purpose.

Objects of Land Mortgage Banks.

Before dealing with the constitution of different types of land mortgage Banks we might clearly state the principal objects for their establishment. These are :—

(a) The redemption of the land and honour of agriculturists.

(b) The improvement of lands and methods of cultivation and building of houses of agriculturists.

(c) The liquidation of old debts.

(d) The purchase of land in special cases only to be prescribed in the bye-laws so as to prevent land speculation.

Different types of Land Mortgage Banks.

Land mortgage Banks are of various types and can be classified as *Co-operative*, *Non-co-operative* and *quasi-co-operative*.

The Co-operative type is illustrated in the Prussian Farm Mortgage Mutual Credit Association which consists of borrowers only. Credit is created by the issue of Mortgage bonds bearing interest and made payable to bearer and these bonds are regarded as perfect types of investment in Germany. The Federal Farm Loans Banks' of the U.S.A. are also of the same type.

The *non-co-operative* type is represented by Joint stock land mortgage Banks in Europe based on the model of Credit Foncier de France. The Agricultural Bank of Egypt illustrates this type.

The *Quasi-Co-operative* type is represented by the Hungarian Land Mortgage Institute and National Small Holdings Land Mortgage Institutes ; these are Associations formed with share-capital and on a limited liability-basis, but in which each member has a single vote, and the dividend on share Capital is fixed at a low-figure.

The type that suits India.

So far as big Zeminders, specially in the permanently settled tracts, are concerned, the commercial type might be suitable for India. But for the small agriculturists the Quasi-Co-operative type seems to be most practicable, though the ideal should be the pure Prussian Model. And as a matter of fact the few land mortgage Banks at present extant in India are of this type.

HISTORY OF LAND MORTGAGE BANK IN INDIA.

Failure of early experiments.

The first Land Mortgage Bank set up in India was incorporated in London with a nominal capital of £2,000,000 of which only 1/10th was paid-up. The working capital was secured by the issue of debentures at a little over 5% per annum and repayable within 30 years at

par. Loans were granted for a maximum period of 7 years at a rate of interest varying between 8 to 10%. The Bank flourished for about 20 years only to collapse in 1885 for uncontrollable circumstances. This bank was a purely private affair, and received no aid from the Government.

The earliest scheme of a state-aided private bank was prepared by the Government of India in consultation with the Bombay Government in 1882. The Bank was to be started in the Purandhar Taluk of the Poona District with a Capital of Rs. 2,00,000. The purpose of the Bank was to liquidate the indebtedness of the ryot with the help of a Government loan of Rs. 6½ lakhs at 4%, the bank lending to the ryot at 9% for a period not exceeding 10 years. The Bank was to restrict it dealings to the more solvent cultivators.

The scheme, thus framed, was submitted to the Secretary of state for India for his approval. The latter however rejected it on the following grounds :—

(1) The position of the Bank is anomalous. It is a private concern and yet it claims so many special privileges from the government.

(2) There is no reason why the Bank should borrow at 4% and lend at 9% thereby depriving the ryot of the benefit of a lower rate of interest (as if but for the Bank, the ryot could borrow at a lower rate.)

(3) That in view of the passing of the Deccan Agriculturists' Relief Act of 1879, the proposed scheme was un-necessary in the ryot's interests.

The Punjab experiment.

It was not till more than 80 years later that land mortgage banks were established in India under the auspices of the Co-operative Department. It was the Punjab who took the lead in this matter by establishing the Jhan Co-operative Mortgage Banks in that province.

Experiment in Madras.

In Madras there is 1 central Land Mortgage Bank and 68 primary Land Mortgage Banks. The Madras Co-operative Land Mortgage Bank Act of 1934 authorises the Local Government to guarantee both the principal and the interest of the debentures issued by the central Land Mortgage Bank and confers on the Bank effective legal powers of

collection from defaulters. The total value of debentures issued by the Bank up to November 1935 was Rs. 85½ lakhs.

Experiment in Bombay.

In Bombay, the earliest experiments were made in the Dharwar and Broach districts and a little later another bank was set up in the Pachora Taluk under the auspices of the Bombay Provincial Co-operative Bank which opened up a separate Land Mortgage Department. Debentures of the value of Rs. 7 lakhs were purchased by the Government. Every loan was to be sanctioned by the Provincial Bank and the Registrar, the maximum permissible to any individual being fixed at Rs. 10,000. The sucess of the Broach experiment induced the Government to set up a Land Mortgage Committee. Following the recommendations of the Committee, 10 more primary land mortgage banks were set up. Besides a Central L. M. Bank styled the Bombay Provincial Land Mortgage Bank was registered in December 1935 with an authorised capital of Rs. 10,00,000. The Government promised to guarantee both the principal and the interest of the debentures issued by the Provincial Bank up to the value of Rs. 10 lakhs. The membership of the Central Bank was to be composite, being open to land mortgage banks.

Experiment in Bengal

In Bengal the scheme for the establishment of Land Mortgage Banks took a definite shape when the Bengal Banking Inquiry Committee recommended their establishment with capital derived from debentures the interest on which was to be guaranteed by the Government. Of course, even before this, there were 2 so-called L. M. banks, one at Bhola and the other at Naogan. The Bhola bank has been rather insignificant. The Naogan Bank has an authorised share capital of Rs. 5 lakhs. Loans to members do not exceed 10 times the value of their paid-up shares and bear interest at a flat rate of 10 to 16 per cent. The prosperity of the Bank is largely due to the strong support of the "Ganja cultivators' co-operation Society."

The great depression of 1929 greatly intensified the hardship of the agricultural debtor and persuaded the Government to launch out a tentative scheme of setting up L. M. banks in five Bengal districts, namely Mymensingh, Pabna, Rangpur, Tippera and Birbhum. The membership of these banks is open to men of limited means, who may not be members of co-operative societies, but who must satisfy the authorities as regards their capacity to pay interest and other charges on the loans granted. The capital of these L. M. banks is derived from two sources : (1) shares and (2) yield of debentures not exceeding Rs. 12 lakhs to be floated by the Bengal Provincial Co-operative Bank. The Government guarantees the interest on these debentures. The amount which any individual L. M. bank is allowed to borrow is subject to two restrictions, namely (1) that it can not borrow more than 20 times the paid-up capital plus its reserve-fund ; (2) that it can not borrow more than 50 per cent. of the total value of the lands mortgaged by banks.

Again the conditions of borrowing by individual members have been defined as follows :—

(a) No member can borrow in excess of 20 times the values of his paid-up share subject to a maximum of Rs. 2,500 which limit can be raised on special occasions to Rs. 5000.

(b) No member can borrow in excess of 50 per cent. of the market value of the lands assigned by mortgage deeds to the bank.

(c) No member can borrow who is at the same time a member of any other co-operative society unless his application is recommended both by the co-operative society and the Central Bank to which the society is affiliated.

(d) No member can borrow unless he can satisfy the L. M.

Bank as regards his capacity to pay the annual interest and the instalment of the principal sum due from him.

(e) No member can borrow unless he gives a definite assurance that the land mortgaged by him will not be subjected to any further encumbrances. Besides, the Directors may, at their discretion, require the borrower to furnish two personal securities.

(f) Loans can be granted for a period not exceeding 20 years.

Conclusions

It is clear from the above brief account that L. M. banking in Bengal is comparatively undeveloped compared to the position prevailing both in Madras and Bombay. There is no central L. M. bank here to control and finance the primaries. Instead, the Provincial co-operative Bank is filling up the gap If we just remember the vital difference between L. M. banking and co-operative banking, we can easily realise the incongruity of entrusting both the functions to one single institution. As Dr. Niyogi pointed out, in one respect, however, the Bengal experiment has improved upon the practice in Bombay. "In Bombay the Provincial co-operative Bank floated debenture by means of a charge on its general assets and not specifically on the mortgage assigned to it by the primary banks (as in the case of Bengal). If the debentures are a charge on the general assets, it is likely that complications might arise in the relation ship between a financing bank and the Provincial co-operative. That is, the Provincial Bank might experience difficulties in raising loan from the Imperial Bank or the Reserve Bank.

The State in relation to Land Mortgage Banks.

Like the co-operative credit societies, existing Land Mortgage Banks, whether primary or Central, came into existence more

or less under official auspices. State assistance has been generally given in the form of a guarantee of interest and sometimes of capital as well up to certain limits, purchase by the Government of a portion of the debentures pledged against land, declaration of such bonds as trustee securities, and grant of certain concessions like exemption from income-tax, registration fees *etc.* similar to those enjoyed by co-operative societies

Re-commendations of the Agricultural Commission.

(1) State guarantee of the principal of debentures has been condemned by the Agricultural Commission. But the state guarantee of interest, and state purchase of a portion of the debentures if only for the ultimate purpose of selling them, are essential in the existing circumstances as otherwise debentures which are responsible for the larger part of the working capital of the mortgage banks cannot be sold at all.

(2) The Agricultural Commission further recommends that there should be an official member on the managing committee of each Bank to protect Government interest and ensure continuity in management. and that the issue of debentures should be controlled by a central organisation in order to prevent competition in the money market.

(3) The state might further assist the movement in the form of administrative help in land valuation.

How loans are advanced by land Mortgage Banks.

The work of a mortgage bank "is recognised on all hands to be extremely impersonal, as devoid of the human element as possible," while mutual knowledge of, and control over, one another among members is the chief feature of a rural credit society. The insistence in the case of a Land Mortgage Bank with limited liability is on the capacity and business habits of

the directorate, in order to ensure sound valuation of security, careful investigation of titles, correct assessment of borrowers' credit and repaying capacity and efficient management of affairs.

The actual procedure adopted for making advances differs in different Provinces. We have already briefly noticed the procedure prevailing in Bengal. For further illustration we summarise below the Bombay procedure.

(1) The Bombay L. M. Bank advances loans to agriculturists through the primary mortgage banks on the security of their lands.

(2) It is the duty of the primary banks to investigate the title to lands, income, and the repaying capacity of the peasants.

(3) Loans are given to members only on the recommendations of the Board of Directors of the primary banks, submitted to the Provincial Land Mortgage Bank.

(4) Subject to the maximum of Rs 10,000, no member can receive from the primary bank a loan exceeding twenty times his paid-up share capital in the bank, or half the value of his immovable property mortgaged to the bank.

(5) The period of loan is not to exceed 20 years.

(6) Interest charged will not ordinary exceed 6%.

(7) Repayment of the loan is to take place either by equal annual instalments of principal, interest being calculated on the amount outstanding from time to time, or by equated annual instalments including both principal and interest.

(8) The land mortgages taken by the primary banks will be assigned to the Provincial Bank as a security for the loans granted by the latter to the former.

Principal Recommendations of the Central Banking Inquiry Committee.

(1) The Committee thinks that for a long time to come the resources of the Land Mortgage Banks will be mainly required for the clearance of old debts with a view to the redemption of the cultivators' land and house from mortgage. The other objectives, namely, loans for agricultural improvements *etc.* (vide ante) might be pursued afterwards.

(2) The amount and duration of a loan is to be fixed with regard to the repaying capacity and the purpose for taking out loan of individual borrowers. The maximum period should not exceed 20 years, and the maximum amount should not ordinarily exceed Rs 5000 and never exceed 50% of the value of the security.

(3) The repayment of loans should be by a system of equated payments which would lead to the gradual extinction of the loan A system of graduated payments may also be adopted so as to provide for repayment by larger instalments synchronising with increased income due to the investment made.

(4) The working capital of the mortgage Banks should be derived from two sources, namely share capital and debenture. Share capital may be obtained either by initial subscription by the intending members before any loans are made or by the deductions of a certain percentage of the amount borrowed by the members when the loan is advanced. The amount of the share capital should be 5% of the loan after the American practice.

(5) As regards debentures, while the committee does not insist upon any fixed ratio, between debentures and shares, it strongly recommends that the value of debentures outstanding should never exceed the outstanding amount under mortgages given by the mortgagers and over which the debenture holder has a floating charge.

(6) The committee recommends that the debentures should be issued by the provincial land Mortgage Corporation though the actual sale should be made not only by the Provincial Corporation but also by Primary Land Mortgage Banks to be called District Mortgage Banks.

(7) The Provincial co-operative Banks should not function except as a temporary measure as Central Land Mortgage Banks for the

Province and there should be central organisations for that purpose after the Madras model

(8) The management of Primary Mortgage Banks and of the local credit societies should not over-lap though, some amount of co-operation between them is beneficial.

(10) While the Committee is not in favour of Land Mortgage Banks receiving deposits ordinarily like Co-operative Central Bank, it recommends the institution of a Provident fund scheme under which the borrowers were to contribute annually a fixed sum out of their ordinary surplus in order to promote a thrift habit.

(11) The Committee recommends that the power of foreclosure and sale by the Land Mortgage Bank without recourse to the Civil Court should be given to the Land Mortgage Bank in case of defaulting mortgagers subject to their right to question in the Civil Court the action of the Bank.

(12) Finally the Committee recommends the establishment of commercial land Mortgage Bank for the benefit of involved landowners who cannot be adequately served by the Co-operative credit organization, the state assistance to these Banks being on the same lines as in the case of Co-operative Land Mortgage Banks.

SOME ASPECTS OF L. M. BANKING.

(1) Position of the debenture-holder.

It must be clear by now that the fundamental problem of Land Mortgage banking in India is the security of the debenture-holder. It is mainly with the capital derived from the sale of debentures that L. M. banks can play their part in rural banking. No effort, therefore, should be spared in order to give absolute security to the debenture-holder. We have seen that both in Madras and Bombay the Government guarantees debentures up to certain limits, the interest as well as the principal. The Central Banking Inquiry Committee, as we have already seen, does not, however, recommend the Government guarantee of principal and its recommendation has been

accepted in Bengal. But if the government has not guaranteed the principal of debentures in Bengal, sufficient steps have been taken to safe-guard the position of the debenture-holder by establishing a Redemption Fund and by providing that all debentures must be paid off on the expiry of 3 years from the date of their issue. It is also provided that money laid into the Reserve Fund will be invested in Government securities or in Postal Savings Banks or in other safe investments.

Another alternative method of debt redemption, the method recommended by the Townsend Committee on co-operation (Madras) is that of annual redemption of a portion of the debentures.

Of these two methods Dr. Niyogi recommends the former in as much as under it the investor is relieved of the anxiety of finding out fresh avenues of investments every year.

(2) Problem of valuation of land.

Another problem, closely connected with the position of the debenture-holder, is that of the valuation of the mortgaged lands which is admittedly one of the most intricate and difficult in mortgage banking policy particularly with regard to farm lands. It is upon this rock that many L. M. banks have foundered. The practice in France was for a long time to advance loans against the valuation given in the Cadastral record. This is unscientific, as these records soon get antiquated Again in Germany, the valuation given for fire insurance purposes was long accepted as the basis for advancing loan against certain Estates. This method too is defective, as the valuation is rather exaggerated for such purposes. Dr. Niyogi recommends a conservative estimate of the market value of land, based upon proper data, as the safest method for L. M. Banks.

CHAPTER XI

LAND REVENUE*

(1) **Historical retrospect** :—From the very earliest times the state in India has claimed according to the law of Manu, 1/6th of the gross produce of the soil. At first the revenue was taken in kind but later on, owing to various inherent disadvantages of the system, it was commuted into money. This commutation took place first in the Moslem period of Indian History. Sher Shah is the first ruler who attempted a systematic settlement of land-revenue though he received much guidance from Allauddin Khilliji's example as also from the Institutes of Timur.

The next scientific attempt was made by Todar Mal during Akbar's reign. He carefully measured and classified different kinds of land and the assessment was fixed at 1/3rd of the gross produce. All extra cesses or *abwabs* were abolished It is doubtful, however, whether the injunctions of the Emperor were actually obeyed by the petty officials in the outlying areas. In the Deccan, Malik Amber of Ahmednagar established a settlement on the lines of Akbar which became the basis of the future Maharatta settlement.

It was with the decline of the Moghul rule that certain novel features crept into the land revenue system of India. The most significant development was the appearance of *Revenue-Farming* by which a Revenue Collector became responsible for giving a fixed sum of money to the state. The amount was generally fixed at 9/10th of the total collection, the remainder being regarded as the remuneration of the

Collector. This institution which became general during the reign of Emperor Farukhsiyar, gradually became hereditary in the general political chaos of the later Moghul days. Such then was the position when the East India Company came upon the scene and received the *Dewani* of Bengal, Behar and Orissa.

Early Revenue History in the days of the Company.

The revenue administration from 1765 to 1798 can be divided into 4 periods —

Period I—1765 to 1772—*Period of hesitation* Period II—1773-1781—*Period of centralisation* Period III—1781 to 1786—*Completion of centralisation* Period IV—1786 to 1793 *Decentralisation*

Period I—1765—1772. Period of Hesitation

From 1765 to 1772 the collection of revenue was entirely in the hand of Mahammad Reza khan The Company realising the extent of their losses and the exaction of the Collecting Agency abolished Rezakhan's office in 1772 and appointed *supervisors* as collectors of revenue A Committee of Revenue was constituted at Calcutta Moffusil Kanungos were abolished and the collector was assisted at his head-quarters by a *native* financial adviser The whole of the old system was abolished As the Collectors were completely ignorant of local conditions, the Company began to lease out all estates to the highest bidder for 5 years Such temporary leases were known as *ijaras* or farms This farming system was nothing but a revival of the old farming system which we have already noticed. Estates were knocked down to speculators at a revenue which they were unable to bear The only hope of the new farms was to extort what they could from the cultivators during the term of the lease and leave the estate ruined and deserted.

Period II—1773—1781. Period of centralisation.

As the collecting Agency did not work satisfactorily, it was decided to centralise the whole system by the creation of a controlling Committee of revenue at Calcutta with six Provincial Councils subor

dinate to it. Collectors were abolished and a body of native *Amils* was appointed to attempt to extract the revenue as fixed in the previous year. The result, however, financially, was no better. The Company realised that the fault lay not so much with the administrative machinery as with the method of assessment. In 1775 Barwell, a member of the Executive Council, was in favour of a settlement with the Zeminders for 1 or 2 generations, while in 1776, Francis advocated a settlement for perpetuity. A special Committee was appointed under whose superintendence native *Amins* were deputed in 1777 to all districts to enquire into the resources of each Estate. On this basis, annual settlements were made with the Zeminders up to 1880.

Period III—1781—1786. Completion of centralisation.

Period III—The Council now imagining that they had gained sufficient local knowledge decided on the course of complete centralisation at Calcutta. The Committee of Revenue was placed in full control aided by a Dewan. Provincial Councils were abolished and Collectors were appointed over the various districts though they were denied any direct interference with the new settlement. Zeminders were encouraged to pay their revenue direct into the Calcutta Exchequer. As the Collectors were mere figure-heads, they were discouraged from doing anything to make the system a success.

Period IV—1786—1793. Decentralisation.

In 1786 a new scheme was evolved by which the whole Provinces were divided into small districts, each under the control of the Collector. The collector himself made the settlement and collected all the revenues of the district. The Committee of Revenue merely retained a general power of supervision and sanction. The division of the Province into districts he back-bone of the whole system of reforms. It was a revival of Akbar's system of *Sarkars* and it has formed the basis of of all subsequent administration. The collector was now in a position of trust. To him the Zeminder had to look of a fair assessment of revenue; to him the Committee of Revenue, now recreated as the Board of Revenue, had to look for a full collection of the revenue assessed.

In 1786 Lord Corn-wallis landed in Calcutta bearing the instructions of the Court of Directors to enter into a permanent settlement with the Zeminders. Cornwallis, however, insisted upon still further investigations before entering into any such settement. We might mention in this connection two first class controversies between Grant and Shore and between Shore and Cornwallis.

Shore-Grant controveraary.

To put it briefly, Grant tried to show that the Zeminder was merely a temporary official and that the right of property in land was vested absolutely in the state Theoretically, Grant was no doubt correct. Both the laws of *Manu*, the *Ain-Akbari* as well as the judgment of the full Bench of the Calcutta High Court in 1865 favoured Grant's contention. Shore on the other hand maintained that the proprietory right belonged to the Zeminder

Grant was of opinion that Bengal was under-assessed, while Shore maintained that the assessment was as high as it could be In 1789 Shore advocated a ten year's settlement with the Zeminders on the basis of the previous year's revenue. The suggested Decennial Settlement would be in reality a period of improvement and experiment The Zeminders would be able to develop their Estates While the Government and the ryots would be saved from any permanent disability.

Cornwallis, however held that a ten year's settlement would endanger the spirit of confidence in the Zeminders, that sufficient experience had already been gathered and that it would be acting against the injunctions of the Court of Directors, if he followed Shore's advice. Moreover, he maintained that Government must retain the power of interfering in the relations between the land-lord and tenants. Accordingly, on March 22nd 1793 the *Decennial settlement* of Bengal and Behar was declared to be permanent. Such then is the brief history of the events leading to the Permanent settlement of Bengal.

The Permanent settlement of Bengal.

The permanent settlement of Bengal which Lord Cornwallis imposed upon the Zeminders and the peasants of the Province has been historically proved to be one of the greatest blunders

of the British Administration in India. By it, the Zeminders were declared full proprietors of the areas over which their revenue collection extended. The assessment was fixed at ten-elevenths of the total estimated revenue, the remaining one-eleventh being regarded as the remuneration of the Zeminders. The first effect of the settlement, however, was extremely adverse to the Zeminders' interests as most of the Zeminders could not meet their obligations, the assessment being too high in the existing circumstances, The result was that most of the Estates were sold according to the *sunset law*, and a new set of capitalist land-lords came into existence, who had nothing of the old cordial relations with the ryots The Government now passed special legislations known as the *saptam* and the *Panjam* to strengthen the hands of the Zeminders against the ryots The position of the ryots became worse and worse until the government realised its folly by passing Tenancy Legislations from 1859 onwards.

Advantages of Permanent Settlement.

The Permanent settlement of Bengal was justified on the following grounds :—

(1) *Financially*, it ensures a fixed revenue to the state which was a great necessity in the early days of the Company's rule when financial instability was a recurring evil of the administration.

(2) *Politically*, it has secured the allegiance of the Zeminders to the company's rule.

(3) *Socially*, it has created other useful public works. "His manor is an oasis of culture amidst a dead level of ignorance and poverty." It has also created the middle class, the cause of the social literary and educational advancement of Bengal.

(4) *Economically*, it has secured agricultural prosperity. The Zeminders no longer harassed by repeated change of assessment, have been able to devote their attention to the problem of permanent agricultural improvement. The prosperity of Bengal, in other words, has been ascribed to the Permanent settlement.

Hopes unfulfilled.

The above contentions, however, do not seem to be at all sound.

(1) As regards the *financial* argument, though it has ensured a fixed revenue to the state, yet the state has been a heavy loser as it has been deprived of all increments of economic rent with the passage of time.

The extent of this evil can easily be realised if we only remember the fact that whereas in the year of the Permanent settlement in Bengal (1793) the gross rental was Rupees four and a half crores, the estimated figures for 1930 was Rupees sixteen and a half crores Lord Cornwallis had no right to deprive the Government and people of Bengal of their legitimate right of profiting from the general progress of the community. The handicap to the Government has, indeed, been irreparable and the Bengal Government cannot undertake any large-scale nation-building activities on account of the blunder of the British Government over a century and a half ago.

(2) As regards the *political* argument, here too the expectations of Cornwallis have been largely belied. The Zeminders, of course, are staunch supporters of the Government but the value of their support has been greatly nullified by the fact of their great selfishness and political incapacity. To-day, the Zemindars are little more than a privileged body discharging practically no useful function in the society, and they only count

upon their previous contract with the Government for the maintenance of their unjust rights.

(3) *Socially*, Zeminders have similarly failed to supply the necessary leadership to the village community. For one thing the Zeminders seldom live in the villages. Their only interest in the villages is that of a suction-pump, and that interest is best fulfilled with the help of Dewans and other officials who behave like so many heartless despots in the Zeminders' Estates. It is futile to expect creative leadership from absentee land-lords.

(4) Lastly as regards the *economic* arguments, the Zeminders, far from undertaking any permanent improvement in agriculture, have actually prevented the peasants from undertaking any improvements on their own initiative by enhancing their rent.

Defects of the Permanent Settlement.

Thus we see the futility of all the arguments advanced in favour of the permanent settlement. On the other hand, the generally accepted view is that the Permanent Settlement is almost an unmitigated evil and that for the following reasons :

(1) It has not only imposed a permanent handicap on successive Governments, but also has bartered away the time-honoured rights of the ryots themselves. Peasant proprietorship is a universal fact of Indo-Aryan Institutions and the Government has no right to destroy it for the sake of its own supposed convenience.

(2) Another glaring defect is that while the settlement clearly defined the relations between the Government and the Zeminders, it kept in a most indefinite and nebulous state the more important relations between the Zeminders and the ryots.

The result was at least during the first 6.. years, that almost a *Reign of Terror* was perpetrated upon the helpless tillers of the soil by the heartless employees of a race ot upstarts whose status before 1793 was not superior to that of ordinary temporary officials. It was not till a series of Tenancy legislations, beginning from the Rent Act of 1859, was passed that the ryot's position was placed on any tolerable basis.

(3) Another great evil of the Permanent Settlement was the break-up of the old *village communities* which have maintained the integrity and prosperity of Indian villages in the teeth of a series of murderous foreign invasions. The village *Panchayat* was bound to lose a great deal of its authority, as Zeminders became recognised as the natural proprietors of the land. Of course, there are other factors that led to the disruption of the village community which we have already discussed in the chapter on Economic Transition.

(4) Another evil consequence of the Permanent Settlement was that it led to a long chain of *sub-infeudation* resulting in the creation of a large number of middle men who are no more than parasites, exacting more revenue from the poor ryot in order to enrich themselves after meeting their obligations to their over-lords.

(5) Lastly, it has led to a great complication of the whole system of land tenure in the permanently settled areas.

Should the Permanent Settlement be unsettled.

If the Permanent Settlement of Bengal has been proved by subsequent experience to be an unmitigated blunder, and a very costly blunder too from the stand-points of both the state and the ryot, the question that naturally arises is whether an old blunder should be allowed to continue. It is maintained, for

instance, that if the Permanent Settlement can be quietly unsettled, both the Government of Bengal and the humble tiller of the soil would get a great relief. Bengal would cease to be one of the devastated areas of India and would enjoy a very comfortable surplus of several crores of rupees which is essential to a policy of systematic and planned rural reconstruction. The peasant of Bengal would also breathe a healthy air of freedom from the vexatious interference and inhuman exaction on the part of the under-lings of Zeminders and tenure-holders.

The Main objections and their answer.

The champions ot Permanent Settlement, however, have raised the following objections to the abolition of the Permanent Settlement :—

(1) The reversal of the Settlement would amount to the flagrant violation of a solemn pledge given by the Government to the Zeminders. Such a breach of faith would destroy confidence in the sanctity of official pledges

It is indeed difficult to meet this argument. The usual answer that the Zemindars have not fulfilled the hopes entertained at the time of the Permanent Settlement, is really no answer at all. It is a fact that the Zemindars were declared to be permanent and hereditary proprietors of the estates so long as they paid their fixed revenue to the state. Strictly legally, therefore, the Zemindars have a very good case for themselves. But the system, the futility of which has become so transparently obvious, can not obviously be allowed to linger on, merely because a short-sighted Governor-General, acting on the instructions of a Board of Directors living thousands of miles away, solemnly chose to inflict a permanent settlement upon the Zemindars and the people alike, thereby writing off the

immemorial rights of the humble peasant and mortgaging the whole future of the province, in his unseemly precipitate anxiety to ensure a balanced budget for the company's exchequer. The tyranny of a dead voice can not stifle for all times the ringing chorus that emanates from the voice of justice of the living day.

(2) *Secondly*, it is argued that the abolition of the Permanent Settlement at present would involve discrimination against only one class of investments, namely investments in Zemindari estates which must have changed hands since the date of the settlement on the basis of the amortized value of their increased incomes. The reversal, therefore, would penalise not the original beneficiaries, but the innocent present owners who might have invested in land long after 1793.

The above objection, however, is not insoluble. The Government might set up an expert committee to investigate into the titles of every land-holder and tenure-holder and to fix up the necessary compensation in each case. In other words, the Government might purchase the Zemindari rights of all grades and degrees by issuing securities or annuities covering the determined amount of compensation.

(3) *Thirdly*, it is argued that by this step the Government would lose the political allegiance of the Zemindars which has been a great source of strength to the Government in the past.

This argument of expediency again is not very convincing. Gone are the days when the Zemindars were a real power in the country. In these days of fervent democratic sentiments, all vested interests, specially those of the parasitic class, are most pathetically on the defensive everywhere. The political importance of the Zemindar class, therefore, is bound to decline

with the passage of years, and the Government will have very little to lose from its estrangement.

(4) *Lastly*, it has been said that the cultural life of the province will suffer much from the disintegration of the Zamindari system. However much we might condemn the Zemindars, it is a fact that they have played a large part in making Bengal what it is to-day. A large number of the private schools, colleges, hospitals, *etc.* of the province have been founded by the Zemindars. The extinction of the land-lord community will therefore automatically involve the closing of these springs of charity and philanthropy.

This last argument, too, has lost much force today. In the 19th century, of course, some of the Zemindars generally recognised the great social responsibilities of their own status. But now-a-days, they have, generally speaking, become lazy and ease-loving. Most of them are absentee land lords, and the attractions of the city-life have frozen "the genial current of their soul." Our social life, therefore, has practically nothing to lose, and much to gain from the abolition of the Settlement.

Conclusion.

Thus all the objections raised against the reversal of the Permanent Settlement of Lord Cornwallis are found to be, on a critical analysis, either false or exaggerated. The question now, is who is to bell the cat ? The British official stand-point is, briefly spreaking, that it is the duty of the Provincial Legis-lature to perform the necessary surgical operation which might make Bengal once more healthy and active. Indian public men, on the other hand, quite legitimately assert that it is the duty of the British Government to rectify the blunder committed by its own predecessors. Having forced a Settlement

on the province which nobody wanted, not even the Zamindars, it does not lie in the mouth of the British Government now to ask Indians to incur the odium of unsettling it.

Before concluding, we might incidentally refer to the fact that, of late, the land problem of Bengal has assumed almost a communal aspect, as most land-lords happen to be Hindus, and the majority of the peasantry happens to be Moslem, and that it is the declared aim of the Proja party of Bengal, of which the present premier is the leader, is to carry out radical land-reform with the help of an expert Committee.

Different types of Land Tenure in India.

There are three principles types of land-tenures in India the *Zemindary type* ; the *Mahalwari type* ; and the *Raiyatwary type*.

(1) The **Zemindary settlement** is either permanent or temporary. *Permanent* settlements exist in Bengal, Benares and parts of North Madras. In South Madras, the experiment of creating *auction-room* land-lords by handing over different estates to the highest bidders miserably failed. Nevertheless, under company rule, Permanent settlement found great champions in Lord Wellesley, Lord Minto, Lord Hastings and Lord Bentinck who were all in favour of the extension of the Permanent Settlement. The Court of Directors, however, refused to consider their request as in their opinion lands were still undeveloped.

Under Crown administration, Lord Canning revived this idea during the Orissa famine, but his proposal was also rejected by the secretary of state. Since 1883 the idea has been officially closed though in the beginning of the present century the late

Mr. R. C. Dutt advocated Permanent settlement for the whole of India as an insurance against Famine. *Temporary* settlement has been made with the remaining Zeminders of Bengal and the Talukdars of India, the amount assessed being 70 per. cent. of the net assets.

(2) **Mahalwari settlement**—It prevails in Agra, Oudh, the Punjab and the Central Provinces. It is best adapted for those Provinces where village communities with iand-lord rights are to be dealt with. Its main principles have been laid down by *Regulation* 7 of 1882 Under it, the primary liability for the payment of the revenue rested with a responsible co-sharer though all the co-sharers of the village-body were made jointly and *severally* responsible.

As regards the principles of assessment, technically a fraction of the assets is regarded as the total amount of the liabilities The assets consist of the total rents received or the calculated rental value, and of miscellaneous profits from waste or grazing lands. Actually however, the proportion of the assets has varied from 83·3 per cent. in 1822 to 66 per cent. in 1833 and 50 per cent under the Shaharanpur Rules of 1855.

Although the general principles are the same every where, there is a variation in details. In the United Provinces the Settlement Officer first determines the different *soil-units* and then the rent rate with reference to the ascertained rentals after considering all local circumstances such as, means of communication etc. In Oudh, settlement is generally made with the individual Talukdar, though in same cases a sub-settlement is made with village bodies. In the Punjab, the basis is certain standard rates which are determined by finding out the actual rentals paid by *specimen-holdings*. In the central Provinces, the peculiar position of *Malguzars* as revenue-farmers in Maharatta days led to an important modification of the Mahalwari system.

The Government has not only to fix the revenue demand from the Malguzars, but also has to determine the rent payable by the tenants to the malguzars

(3) **Raiyatwary settlement**—It prevails principally in Madras, Bombay and Assam. In all cases there are certain general features such as the demarcation of boundaries, the determination of survey numbers and the classification of soils. But the mode of assessment differs.

In Madras, 50 per cent. of the net produce is fixed as the maximum land revenue, deductions being made for expenses of cultivation, for traders' profit, for the cost of carriage and on account of seasonal vagaries and unprofitable areas. There are, also, different rates for dry and wet lands.

In Bombay, the main principles of assessment. which are experimental in nature, are laid down by a land revenue code. Different soils are classified into several groups according to their natural properties and expressed in fractions of a rupee, sixteen annas representing the best kind of soil. "The purely empirical character of the Bombay system is revealed by the fact that the actual assessment depends not upon the formal working out of results based on theory but rather upon the subjective impressions of local knowledge and experience."

Increase in assessment is limited to 33 per cent. for a whole, Taluk, 66 per. cent. for a whole village and 100 per. cent. for a single holder. Private improvements are at least theoretically protected.

In Assam many lands are held on the annually renewed *patta* or, at least on a lease which is for less than ten years. Tea-gardens are leased out for fairly long terms at low rates of assessment.

General features of a Settlement

The settlement operations of the Government have principally three objectives; namely, the determination of the state's share of the produce, the naming of the person liable for payment of the revenue, and the rights of all private persons in the land.

(1) *Cadastral record*—"A cadastral record is a complex document showing the village map prepared by means of a field to field survey, and the demarcation of the boundary lines; and furnishing an accurate account of each kind of land with it own rate of assessment as well as a record of all private rights and interests in the land." It also contains a statistical table illustrating the past history and the present condition of each village.It is the duty of the Provincial Land Records Department to keep this record. In almost all Provinces Cadastral Records are revised either annually or at short intervals in such a way as to maintain the accuracy of the Record.

(2) *Assessment*—The revenue is levied by means of a cash demand on each unit assessed. Under the Zemindary system the demand is assessed from the village or estate which may be owned by a single proprietor, or by a body of co-sharers jointly responsible for the payment of the revenue. In the permanently settled areas the demand is a fixed sum, while under the temporary settlement it is fixed only for a term of years. Under the raiyatwari system the assessment is on each field as demarcated by the Cadastral survey. The principles of assessment in the different Provinces we shall study later on.

(3) *Collection*—Land revenue is generally recovered not by a single annual payment but in instalments; the dates and amounts of which are fixed to meet local circumstances. A threat of attachment generally serves to bring about, without

further trouble, the payment of such terms as are in arrears and the most serious procedure of sale is comparatively seldom resorted to, especially, in raiyatwary areas. Having regard to the uncertain nature of the Indian harvest, the Government grants relief to the land-holders in bad times. Although the assessment is fixed with reference to average seasons and conditions, the Government has recognised that it is imposible for the cultivator to meet the fixed demand in years when the crops barely suffice for his own sustenance.

The Principles of Relief.

The general principles of relief are as follows :

(1) Relief will not ordinarily be granted when there is half a normal crop ; on the other hand, total relief should be given when the crop is less than a quarter of the normal.

(2) Again no suspended revenue should be collected until after one fair harvest has been reaped in the affected area.

(3) It was further laid down that no relief should ordinarily be given to the revenue-payer of the land-lord class, unless it can be ensured either by legislation or by arrangement that a proportionate degree of relief will be extended to the actual cultivators of the soil.

(4) Remission, partial or complete, is granted in the case of continued failure of crops for more than one year.

(5) No relief either by way of suspension or remission, is granted in the permanently settled areas.

Permanent versus Temporary settlement

Since the days of the Permanent settlement of Lord Cornwallis, there have been vigorous champions of the Permanent settlement both among Indians and European officials. We have already noticed how a succession of Governors-Generals

championed Permanent settlement, but to no effect on account of opposition in England. A series of wide-spread famines which affected almost every Province of India except Bengal towards the close of the last century drew a vigorous protest from the late Mr. R. C. Dutt in the beginning of the present century.

Mr. Dutt claimed that it was because of Permanent settlement that Bengal had greater resisting power against famine than any other part of India, and therefore an extension of Permanent settlement to other parts of India was necessary to alleviate the horrors of famine

In reply to those criticisms Lord Curzon's Government published a *Resolution on the Government's Land Revenue Policy* in 1902. The Government maintained,

(1) That famine was largely due to natural causes and as such the Government's Land-revenue policy could have little to do with it;

(2) That the comparative prosperity of Bengal was due not to the Permanent settlement but to various tenancy legislations, and a number of other peculiar factors;

(3) That the Permanent settlement led to the creation of vested interests and of a parasitic class;

(4) That Revision at the end of 20 or 30 years was not so much disturbing now-a-days on account of improvements of Survey and Records Departments;

(5) That the system of collection prevalent at the time was easy; and

(6) That private improvements of land were fully protected.

Whatever the merits of the controversy at that time, in reprospect, the Government's case appears to us to be overwhelmingly strong. Further extension of Permanent settlement having regard to its great disadvantages previously referred to,

is naturally out of the question at present. The practical question is what should be the term of settlement. There are some people who advocate a short-period, say, 10 years. The merits claimed for this method are :

(1) That the community gets the unearned increment of land,

(2) That there will be no sudden enhancement of rates.

Those who advocate a very long period, say, 99 years, claim,

(1) That it will render permanent improvement of land possible,

(2) That popular feeling is in favour of it.

To us it appears that a middle course is most desirable in as much as it both ensures permanent improvements as well as the community's participation in unearned increment. The term should be between 30 to 60 years and this is largely done in the temporarily settled areas.

The Ricardian Theory in Relation to land Revenue

1. In the early days of the company's rule and even as late as the later part of the 19th century, the Government claimed on many occasions to base its land-revenue policy on the pure theory of rent as developed by Ricardo. Ricardo depicted rent as "that portion of the produce of the soil which is paid to the land-lord for the original and indestructible properties of the soil." The Ricardian rent represents a *differential* between the produce of the superior land and that of the marginal land, the marginal land being defined as that quality of land the value of whose produce is just equal to the expenses of production. Rent arises because of the Law of Diminishing Returns.

We have now to discuss the extent to which the land-revenue in India corresponds to the Recardian theory.

In the first place, India being an old country it is impossible to ascertain the original and indestructible (if there are any) powers of the soil.

Secondly, no scientific attempt has been made in India to ascertain the real extent of the producer's surplus in as much as the labours of the cultivator's family have not been allowed for.

Thirdly, the Recardian Theory assumes perfectly free competition between the land-lord and the tenant ; but in India that competition is conspicuous by its absence in as much as the villagers are mostly agriculturists and have hardly any alternative occupation.

Fourthly, the excessive land hunger in India also serves to increase the value of land far beyond the amount representing the capitalisation of the economic rent.

Fifthly, the Government has not hesitated to tax uneconomic holdings which produce no surplus whatsoever.

Lastly, the Government does not refund land-revenue which is fixed for a term of years even if it is proved to its entire satisfaction that no surplus emerged in any particular year.

Hence it is idle to pretend that land-revenue in India is governed at all considerably by the pure theory of rent. In the permanently settled areas there is a very large surplus of which the Government takes only a small fraction, while in the temporarily settled areas land-revenue is largely an appropriation of the ryot's bare necessaries of life, and not of the producer's surplus.

Land Revenue and canons of Taxation.

The Taxation Enquiry Committee was asked to judge the land-revenne policy of the Government according to the principles of taxation. Adam Smith laid down 4 principal canons of taxation, namely, those of *certainty*. *convenience*, *economy* and *ability*.

The first principle of *certainty* is largely satisfied as the peasant knows how much he will have to pay during a particular term of years. Yet there is *some element* of uncertainty on account of the fact that the rates might be enhanced during a revision of the settlemeut.

(2) As regards the *second* canon of *Convenience*, some efforts have been made to satisfy these requirements by introducing the system of payment by instalments. On the other hand, as the settlements are based on averages, the produce of good and bad years having been grouped together, there is a great inconvenience to the peasant in bad years ; the assumption that the peasant would save in good years against the bad years, being largely untrue to facts. The result is that the peasant has to go to the Mahajan for the payment of the land revenuc in years of scarcity. There is a further inconvenience due to the fact that the settlement is fixed for a fairly long term and the ryot accordingly adjusts his standard of living on the basis of the land-revenue he has to pay during that term. When, therefore a new settlement imposes higher rates, the peasant is hard put to it as he is called upon to adjust himself to a new situation at a very short notice. This disadvantage may, however, be reduced by gradual increase of land-revenue.

(3) As regards the principle of *economy*, it is hardly satisfied in as much as the establishment cost of the collecting

agency is very high, though it must be remembered that the collectors and their subordinates perform many other functions of an important character, besides the mere collection of land-revenue.

(4) *Finally*, as regards the principle of *ability*, we have already seen how the payment of land-revenue in many cases impinges upon the ryot's bare necessaries of life. The Government, however, claims that there has been a progressive reduction in the Government's share of the produce of the soil. As the Taxation Enquiry Committee has shown between 1903 and 1924, while prices have risen by 117 p.c. the land-revenue rose only by 20 p.c.

From the point of view of *equity*, however we must admit that the present land-revenue policy hardly conforms to the principle of justice.

In the first place there are *great disparities* as regard incidence *between different Provinces* and between *different districts* of any single Province. For example—The burden is less so far as permanently settled areas are concerned compared to temporarily settled areas, though of course, the lot of the actual cultivator is rather worse in the Zemindary areas. According to the Taxation Enquiry Committee, the percentage of land revenue to net rental averages at 25 in the Punjab (in the 11 districts only) 27 in UP, 10 in Berar, 17 in Madras, and varies from 17 to 50 in different parts of Bombay. The Committee recommended the adoption of a uniforn standard of 25% of the annual value as the share of the state.

Secondly, if we just *compare* income-tax to land revenue we can easily realise the great disparity of treatment meted out to the two forms of income. In the first place, there is no tax-free minimum in the case of agricultural income. If all incomes below Rs. 2000 per annum were exempted from taxation in the case of landed income as in that of non-agricultural income, most ryots would become at once free from the burden of tax-payment though this is not practicable for sometime, yet the ideal solution would require some such drastic step.. Secondly, the percentage of tax to-

income is much higher in the case of landed incomes. Thirdly, there is absence of progression in the case of landed incomes. And lastly, on account of the average method, lands are over-assessed in certain years and under-assessed in others.

Lamd Revenue : a Tax or a Rent

The peculiar nature of Land Revenue in India which, as we have just seen, can be explained neither by the pure theory of rent nor by that of taxation, has given rise to a great controversy, whether Land-Revenue is a tax or a rent. In that controversy as a rule, British officers have adhered to the view that land revenue is a rent, the state claiming universal land-lordism; while Indian writers like Ranade, Gokhale, R. C. Dutt, and others contended that land-revenue is a tax, in as much as it exceeds in many cases the true economic rent.

Between the two *extremes*, there is what might be called the *third* view, the view most prominently expressed by Baden-Powell. In his opinion, the Indian land-revenue is neither strictly a tax nor a rent, but partakes more of the nature of a tax than a rent. In the permanently settled tracts, obviously the state can not any longer claim to be the land-lord, as it has already recognised the proprietorship of the private landlords. In the temporarily settled tracts, the land-revenue is more a compulsory tax on agricultural incomes than an economic rent determined by the competition between landlord and tenant.

We now proceed to analyse the main arguments advanced in favour of the two extreme views :—

Land Revenue : a Rent

(1) Land-Revenue is a rent because the state in India has always claimed to be the supreme land-lord. The British

Government, being the natural successor of previous Governments can not but be universal landlord in India.

The above view, however, is not tenable because of the fact that both under Hindu and Moslem rule private ownership of land was recognised, the state claiming only a portion of the produce of the soil as its legitimate share. In so far as the British Government is a legitimate successor to the old non-British Governments, the state cannot claim universal land-lordship. Certainly, there can be no doubt that there is private ownership in the permanently settled areas even under British rule. The position, however, is not so clear in the *Raiyatwari* areas, where the tenant has been given occupancy tenure which is both heritable and transferable. Though there is no substantial difference between the positions of the Zemindar and the occupancy tenant, except that the latter might be charged enhanced rates in different periods, the Government has refused to accept or to reject the theory of peasant proprietorship in those areas.

Secondly, Land-revenue has been described as rent,

(a) Because it cannot be altered for a long period ;

(b) On account of the grant of rent-free house sites, grazing lands etc.

(c) Because in raiyatwari areas, a percentage of the net assets is taxed.

As regards the first argument, in can be replied that there is nothing except considerations of convenience to prevent the Government from annual revision of assessment. The second argument is also not important as the concessions granted are insignificant and because an enlightened state might easily grant these without necessarily claiming universal land-lordship. The third argument is equally

false as in many cases land-revenue, far from being a percentage of the net assets, exceeds the true economic rent of land.

Land Revenue : a Tax

(1) Land-revenue is a tax because it is not governed by the principles of rent. It is seldom a taxation of producer's surplus as non-economic holdings have to pay some revenue to the state. In many cases the tax impinges upon the ryot's bare necesaries of life.

(2) It is a tax because it was referred to the Taxation Enquiry Committee and judged by the application of the principles of taxation.

(3) The Income tax Act of 1886 exempted agricultural incomes from Income tax. This constitutes an admission of the fact that land-revenue is a tax.

The above arguments, however, do not conclusively prove that land-revenue is a case of tax. If agricultural incomes have not been taxed before 1886, we must remember that they were taxed before and might be taxed afterwards. Again there is no tax-free minimum in the case of landed incomes nor is there any application of the principle of progression. Thus, if land-revenue is a tax it is the most unsatisfactory and regressive from of tax. The truth is that Rent in India is not a simple economic phenomenon, but the complex product of *customs, legislations as well as purely economic laws.*

The whole contro-versy is nothing but a profitless war of words in as much as the practical solution of the land-problem in India does not depend upon the solution of this controversy. If individual ownership is recognised, that does not mean that the individual is exempt from obligations to the state. On the other hand, if state ownership is recognised, the state cannot take shelter behind that legal theory in order

to behave like an irresponsible Land-lord. In both the cases the Legislature can legitimately claim to control and regulate the system. It is, however, desirable that the state in India should give up flirtation with the idea of state land-lordship and recognise private ownership every where, which will do much to remove the elements of uncertainty and uneasiness in the present situation, without placing any handicap, whatsoever, on the legitimate functions of the state.

PROBLEM OF SUB-IN-FEUDATION

Origin of Sub-in-feudation.

We have already noticed how the Permanent Settlement gave rise to a long chain of middlemen between the original Zeminder and the actual tillers of the soil. When the land-revenue became permanently fixed, it was possible for the Zeminder to grant in his turn permanent lease of his land to other people on a similarly fixed but higher rent. This would bring him not only a net annual income after meeting the state demand but also a large sum as the price of the interest created and transferred by him at the time of the execution of the new-lease. The tenure-holder followed the same example. In this way, as the process of sub-infeudation was continued, the chain of middlemen became longer, and as each successive grade of intermediate tenure-holder increased the rental in order to secure a net annual income for itself, the burden which ultimately fell on the ryot became heavier. As Dr. Mookherji has pointed out, there is a close similarity between the land-lord's estates in Northern India and the Latifundia in Italy and Spain, the estates in both cases are owned by great land-lords whose sole interest in their property is in the their rents.

Intermediate tenures in Bengal.

A typical kind of tenure sanctioned by legislation is the *Patni* tenure—It may be described as a permanent, heritable, and transferable tenure at a rent fixed in perpetuity. In case of default the *Taluk* will be sold, and if it is not enough, the

property will be attached. The Patni System had its origin in the Zemindary of the Maharaja of Burdwan.

The creation of a Patni tenure implies a virtual surrender of proprietory right, and is resorted to only when the Zeminder is in need of a large sum of money, a heavy premium generally being paid by the Patnidar. A *Patnidar* again sublets to a *darpatnidar*, who in his turn sublets to a *sepatnipar*. The incidents of these subordinate tenures are generally similar to those of the original Patni taluk. As Dr. R. K. Mukherje has pointed out, if a gradual accession to the wealth and influence of the sub-proprietors be a desirable thing in the interest of the community, then the action of the land holding class is not in this instance a subject for regret. Moreover, in large-estates presided over by big Zeminders, the tenants are absolutely powerless. In an estate, on the other hand, parcelled out among tenure-holders of several grades, the actual cultivator has above him generally his social peer. There is in such ciraumstances a tendency not to rack-rent the cultivator. Hence Sub-feudation, though economically unsound, is not an unmixed evil.

Main types of sub-tenure in Bengal.

(1) **Jote**—it is the most commcn class of subordinate tenure. *Jotdars* cultivate their own lands and do not always possess the right of subletting there lands to tenants at fixed rates. Below the Jotedar are the *Chukanidars*, who again are followed by *Darchukanidars*, *Dardarchukanidars*, *Tasya—chukanidars*, *Telitasya chukanidars*. The majority of them are under-ryots without any right of occupancy.

(2) **Mukrari** and **Maurashi**. The former are generally leases of small plots of land for the construction of permanent dwelling houses, factories, burning ground etc. The leases are

permanent and heritable and the rent is fixed in perpetuity. *Maurashi* tenures are also permanent but are liable to enhancement of rent, unless it is stipulated to the contrary.

(3) **Ijara**—*Ijaras* are farms limited to a term of a year The former has no claim to a resettlement on the expiry of his lease. An ijara is sometimes sublet, and becomes a *darijara*.

(4) **Howla**—The *howla* tenures had their origin in the reclamation of waste-lands. These tenures are generally permanent, heritable and transferable, but their rent is not fixed in perpetuity. Below the howladar is the *osat-nim-howladar*.

(5) **Abadkari**—or **Mandali tenure**. These tenures prevail in Midnapur, and correspond to the howlas of Backergunge. The *Mandali* tenure is generally found in those areas of Midnapore where the bulk of the population consists of aboriginal tribes. In such a community the mandal was the representative in all external relations. The tenure is permanent, heritable and trans-ferable.

(6) **Utbandi system**—Its characteristic features are that the ryot has no fixity of the area of lands he holds, and that his land is measured and assessed by the land-lord every year. The tenant is at liberty to renounce at the end of the year any portion or the whole of the land held by him, while the land-lord also has the right of evicting the *utbandi* tenant from any part or whole of the holding at the end of the year. It prevails in Nadia and Murshidabad.

(7) **Sanja tenancy of west Bengal.** It is similar to the *Dhankarari* system of East Bengal. The rent is paid in kind, the amount being a certain fixed quantity of the actual out-turn. The rent compared with cash-rent is normally high.

(8) **The Barga or Bhag-Chasi System**—This system prevails to a considerable extent all over the Province. The

produce of the soil is generally divided equally between the Zemindar and the tenant, though sometimes the share of the land-lord comes down to one third of the gross produce. Ordinarily the land-lord supplies the seed and bears the expense of manure. Besides the rent, the ordinary ryot has to pay, certain *extra* taxes known as *Abwabs* both as a matter of routine and on ceremonial occasions. The *Bargadar* is generally regarded as a mere labourer in as much as the ryot is supposed to have the right to resume it at the end of any crop and transfer it to another. This system is very bad.

(9) Finally, we might refer to the *jimba* tenure in Backergunge and the *Ghatwali* tenure in Birbhum, Burdwan and Bankura. The origin of the former was in the protection afforded by one land-lord to the oppressed tenants of a weaker one, when the latter failed to do so. Jimba thus implies any kind of dependant taluk.

The *Ghatwali* tenure is essentially a service-tenure, although a small amount of rent is paid. Grants of land were made for rendering police or military service, originally for guarding the ghat or mountain passes on the western frontiers of these districts. In recent times, however, the *ghatwalis* are being transformed into ryot with occupancy rights.

Tenancy Legislation in Bengal

The celebrated permanent settlement of Lord Cornwallis declared the Zemindars to be hereditary proprietors of land on a perpetually fixed land-revenue basis with absolute rights of transfer. But then, as we have already noticed, it did not define in any specific way the relation that was to exist between the Zeminders and the tenants. The immemorial rights of the ryots were bartered away, and they were left to the tender mercy of the Zeminder.

Before the permanent settlement, the *khudkhast* ryots in Bengal formed the governing body of the village community. Their rents were customarily governed by the Pargana rates. They had also a number of communal privileges in regard to their homestead plots and to the pasture and forest lands, to the bunds, water-reservoirs, irrigation channels and fisheries, to the services of village servants and officials, and to the pick of the fields left unoccupied. All these rights of the cultivators were left unascertained at the time of the permanent settlement and allowed to be regained by the Zeminders. Lord Cornwallis no doubt gave a legislative right to each cultivator to demand a declaratory lease or *patta* specifying the rent. He believed that he was giving the cultivator the same right to hold his fields for ever at a fixed rent as he was giving to the Zeminder to hold his estate for ever at a fixed land-tax. But the minute inquiries into the rents of the cultivators which Lord Cornwallis contemplated were never carried out. In many respects the series of land-laws in Bengal since 1859 seeks to give legal force to the customary rights of the cultivators which the permanent settlement left unascertained or actually obscure.

The first Act, however, of the Government after the permanent settlement was to strengthen the hands of the Zeminders in their work of exploitation by passing the notorious laws known as *Haptam and Saptam.*

It was only on 1859 that the Government realised the helplessness of the ryots and made the first serious attempt to safe-guard their interest.

(1) The Rent Act of 1859 divided the tenants into 3 broad classes :

(*a*) Those holding land at a fixed rent since the Permanent settle-

ment (*b*) Those holding land for 12 *continuous* years (*c*) Those holding land for less than 12 years

(2) It conferred on the *first* class the right to hold land at a fixed rent provided they could prove that their rent had not been increased during the last 20 years This applied however only to a small number of cultivators

(3) The *second* and the most important provision of the Act was that which bestowed the right of occupancy on the second class Their rent could be enforced through the Court and definite rules regarding the enhancement of rent were laid down

In practice however the Act revealed many defects The right of occupancy could be established only if the ryot could prove that he had held the land continuously for the last 12 years an almost impossible feat for him Again when the landlord was entitled to an enhancement of rent he also found it difficult to prove the legitimacy of his case before a Court of Law

The zeminders, henceforward, began to evict the tenants just before the completion of the 12th year, and then re-instated them after sometime These defects, combined with serious agrarian riots, led to the passing of the *Bengal Tenancy Act* of 1885 This Act has served as a basis for Tenancy Legislations through-out India It divided the tenants into tenure holders, ryots and under-ryots A tenure holder is a person who has acquired from the proprietor or another tenure-holder a right to hold land for the purpose of collecting rent, while a ryot is a person who has acquired such a right for the purpose of cultivation An under-ryot is a person who holds land mediately or immediately under a ryot occupancy-right could be acquired by holding land continuously for 12 years in the some village , the assumption as regards continuity being in favour of the ryot unless the contrary is proved It also provided for compensation for improvement in case of eviction and laid down specific grounds on which rent could be increased Eviction of the occupancy-raiyat would follow the sale of land in execution of a decree for arrears of rent. The non occupancy-raiyat and the under-raiyat however, got no substantial protection

The Amendment Act of 1928 :

Subsequent experience, however, revealed certain defects of the Act of 1885, some of which have been remedied by the Amendment Act of 1928 The question of the transferability of occupancy holding was so long an unsettled one The Act of 1928 removes it and confers on the occupancy-ryot the definite right of transfering his holdings, the land-lord being entitled to a transfer-fee and aiso under certain circumstances to have the holding transferred to himself by paying compensation The Act confers on the occupancy ryot "the right over tree" and the right to erect dwelling-houses and to excavate tanks in his farm. The Act, also confers a number of substantial rights on under-ryots. It provides against an arbitrary enahncement of rent, it being stipulated that the money-rent can be increased only by a written registered contranot and that, too by not more than 4 annas in the Rupee at the interval of 15 years The Act also lays down 5 specific grounds on which the under-ryot can be evicted Even on those grounds he is is not liable to ejectment if he has been admitted in a document by the land-lord to have a permanent and heritable rigits to the land, or if he has been in possession of the holding for 12 continuous years, or has a homestead thereon The Act also makes the holding of an under-ryot heritable but not transterable except with the consent of the land-lord.

Such then, briefly, is the history of Tenancy Legislation in Bengal The Legislation is not without its defects As Dr. Mukherjee has pointed out The creation of a transferable proprietory or tenant right without any limitation has been accompanied by great economic unsettlement It is not in the interest of cultivation to create sale-able proprietory and occupancy-rights which may be bought up by money-lenders and non-agriculturalists, who will convert the cultivating owners and tenants into rack—rented tenants-at-will. All their interest in the matter is to make the greatest possible profit in the shortest possible time ; they have no desire to maintain or increase the value of the land. This is what actually happend in Ireland under similar circumstances when the land created a heritable and saleable tenant-right.

This experience ought tc warn us in India against conferring any saleable right on the occupancy tenant who thereby may degenerate into a parasite of capitalism. Thus the cultivating peasantry is gradually being expropriated It is they who constitute a continuously increasing class of farm hands and day-labourers; a floating population waich is at once the cause and effect of own agricultural inefficiency. On the other hand, the right of free transfer is a valuable one in the interests of consolidation of holdings From this standpoint, the obligation tc pay a transfer-free to the Zemindar is highly objectionable as it would be sure to prevent such transfers as might be otherwise desirable The assurance of Mr Fazlul Huq to introdnce an Amending Bill very shortly, in the Bengal Legislative Assembly, abolishing *Salami*, pre-emption rights, *abawab* and other disadvantages, is a welcome one as far as it goes.

CHAPTER XII.

INDUSTRIES (GENERAL OBSERVATIONS)

A BRIEF HISTORICAL RETROSPECT

1. Industries in the Ancient days.

History tells us that India had many flourishing cottage industries in the palmy days of her ancient history. As the Industrial commission has observed, "At a time when the west of Europe, the birth place of the modern industrial system, was inhabited by uncivilized tribes, India was famous for the wealth of her rulers and for the high artistic skill of her craftsmen." Another European writer has observed, "the gossamer muslins of Dacca, the beautiful shawls of Kashmir and the brocaded silks of Delhi adorned the proudest beauties at the courts of the Caesers, when the barbarians of Britain were pairted savages." Recent discoveries have also revealed Mummies in Egyptian tombs, dating from 2000 B C., wrapped in Indian muslins of the finest quality.

"The skill of the Indians," observed Prof. Weber "in the production of delicate woven fabrics, in the mixing of colours, the working of metals and precious stones, the preparation of essences and in all manner of technical arts, has from early times enjoyed a world wide celebrity.

Of course, there are certain European scholars such as Sir John Marshall, who have disputed India's claim to originality in the development of fine industrial arts except in the matter of Jewellery. According to them, the indigenous art of India

was of a very primitive type, and its later efflorescence was due to Hellenic and Iranian influence. But this view is not accepted by experts like Fergusson, Havel and others and does not seem to be true to historical facts.

With the political decline of the Hindus, however, the industrial prosperity of India fell from the heights.

2. Industries in the Moghul days.

The decline of Indian industries which began in the later days of the Hindu rule, and was even accelerated during the stormy days of the Pathan rulers, was however, arrested and even replaced by a great revival in the days of the Great Moghuls. Among the *finer* crafts of the period, we might mention the Muslins of Dacca, the shawls and carpets of Kashmir, the silk clothes of Delhi and Agra, the ivory work of Murshidabad, the marble work of Jaipur, the perfumery of Gazipur and the velvets of Lucknow.

Besides, India had a very flourishing cotton hand loom Industry which not only supplied the entire local demand but also provided a large surplus for export to Ceylon, Arabia, Egypt and other neighbouring markets. Among the minor crafts of the age, we might mention the manufactures of wooden bed-steads, stools, boxes, leather goods, paper, pottery, and bricks.

3. Industries in the days of the John Company and after.

Before the discovery of the Cape route, the famous handiworks of India were sold to European markets by Arab merchants through the Italian cities of Venice and Genoa. Those were the days when Venice held the "Gorgeous East in fee." With the discovery of the Cape route, however, the

monopoly of the Indian trade became the main objective of different European nations. The Portuguese were the first to come upon the scene. Later on, the Dutch came to replace the Portuguese, only to be driven out of India ultimately by the English and the French. Then ensued a bitter rivalry between England and France out of which the former was destined to emerge victorious. The first efforts of the East India Company were naturally directed to the exportation of Indian cottage products to Europe. But as Indian calicoes and muslins were found to be much cheaper than British woollen and silk manufactures, the British Government prohibited the importation of Indian fabrics into England.

From this time onward, the East India Company and the British Government began to look upon India as a source of raw materials, and a market for British manufactured goods. The Industrial revolution in England, and specially the revolution in transport, heralded by the development of railways and steam-ship, served greatly to accelerate the process of the decline of the old economic order, though it carried with it the potentialities for the birth of the new order. The prevalent doctrine of *laissez-faire* gave a further impetus to official indifference and hostility. Thus came to an end the long and eventful story of India's flourishing cottage products.

It was not till the policy of *Laissez-faire* became discredited on the theoretical plane, and a series of desolating famines revealed the precarious foundations of India's economic life, that the need for industrialisation came to be felt. Both the Famine Commissions of 1880 and 1901 recommended the rapid industrialisation of India as the only remedy for India's poverty and famine. The Swadeshi Movement of 1905, though mainly inspired by feelings of political opposition to Great Britain, stimulated the development of many new Indian

industries. The enthusiasm, however, could not endure long for want of official support and of experience on the part of Indians Thus in the Pre-war Period the only organized industries of India were the Jute mill Industry of Bengal, the Cotton Mill Industry of Bombay, and the Coal Mining Industry of Bengal, Bihar and Orissa. A great step in advance was taken with the inauguration of the Tata Iron and Steel Company at Jamshedpur in 1907 which actually commenced operations in 1912. The Government, however, as it is clear from the Despatch of Lord Morley in 1910, still deprecated official intervention in industrial affairs.

Effects of the war on Indian Industries.

The next great land-mark was supplied by the Great War (1914-18) which by cutting off imports both from the enemy, and later on from the Allied countries, gave exceptional opportunities for the development of Indian industries. At first, however, the field was occupied by Japan and U. S. A. It was the realization of the military importance of developed Indian industries that led to the complete reversal of the official attitude towards Indian industries. In 1916 the Indian Industrial Commission was set up to examine the whole question of industrial development in India, and to indicate new openings for the profitable employment of Indian capital in commerce and industry and the manner in which the Government could usefully give direct encouragement to industrial enterprise. The commission recommended active state encouragement to Indian industries. In 1917 the *Indian Munitions Board* was set up "to control and develop Indian resources, with special reference to the needs created by the war." The Board was able to foster indigenous industries in various ways specially by the purchase of Indian articles and materials in

preference to foreign goods including British. Provincial Departments of Industries were started at the end of the War and the Munitions Board was merged in the Imperial Department of Industry and Commerce.

The Post-war boom.

The close of the war was followed by a great industrial boom leading inevitably to a prolonged trade-depression, The exchange difficulties at that period further intensified these difficulties Mean-while the *fiscal Autonomy Convention* for India had been established by the British Parliament. In 1921 the Indian Fiscal Commission was set up under the Presidency of Sir Ibrahim Rahimtoola. The commission recommended a policy of discriminating protection for India which was to be carried *out* by an independent Tariff Board. Thus, the pre-war Laissez-faire policy of the Government was set aside in favour of that of state interventionism. Some industrial recovery took place from 1924-25 till the Wall street crisis of 1929 enveloped the whole world including India into a trade depression of unprecedented intensity out of which India along with the rest of the world has been only slowly emerging.

Industrial backwardness of India.

Compared to other advanced countries, industrial development in India has been very limited. The salient features of the present industrial position can be summed up as follows :—

(1) India has only *a few developed industries*, such as the Jute industry of Bengal, the Cotton mill industry of Bombay, the Iron and Steel industry of Jamshedpur, the mining industry of Bengal, Behar and Orissa, and the new-born Sugar industry of U. P.

(2) Even within its limited sphere, industrial development has been *uneven*, being restricted to *safe and easy forms of investment*.

(3) Thirdly, the development has not been commensurate with the size of the country, its population and its natural resources.

(4) Lastly, there has been an almost exclusive reliance on foreign imports for the supply of accessories, stores and machineries as well as of foreign technical and chemical experts.

(5) But although the present position is not at all enviable, India has great industrial potentialities. We have large natural resources, vegetable, animal and mineral and a large home market for selling our manufactured goods. We shall now study our present position with regard to the different factors of production in order to find out the main causes of our industrial backwardness.

Land

(1) The first essential of industrial development is the presence of adequate raw materials and power resources.

Regarding *raw materials*, our resources, though not generally of the best quality, are fairly abundant. For instance, the Jute Industry of Bengal mainly owes its prosperity to the fact that Bengal enjoys virtual monopoly of raw jute. Similarly, the foundations of the Cotton Mill Industry of Bombay and Ahmedabad have been laid in the supply of raw cotton in Berar and some other districts of the Deccan. On the other hand, the comparatively inferior quality of Indian cotton cloth is due to the fact that Indian cotton is mostly of the short staple variety. In the same way, the comparative inferiority of the Indian white sugar Industry is partly due to the low yield of sugar-cane per acre and the inferior quality of our canes.

As regards *power*, India is not as fortunately placed as some other highly industrialised countries like England and the U. S. A. Our reserves of good coal, according to present consumption, are, in the opinion of the coal Mining Committee, just sufficient to last 122 years, while the reserves of coking coal are only adequate for 62 years Unless proper methods of coal conservation are adopted, India, therefore, will have to face the prospect of coal shortage in future. Another difficulty is the virtual concentration of India's coal resources in one locality, namely the Gondwana coal-field of North Eastern India. This factor, coupled with the high freight charge on India's coal, makes it impossible for industrialists in the outlying regions to obtain coal at an economic price. As a matter of fact, Bombay finds it more cheap to import coal from Africa than from Bengal.

If our coal resources are not properly distributed, our position as regards petroleum is infinitely worse. With the separation of Burma, Assam and the Punjab are the only places where some oil-fields exist. But their yield is insignificant. In 1930 it came to 44 million gallons only.

Possibilities of Hydro-Electric development.

But though our coal position is not very satisfactory, and our oil resources are almost negligible, we have great potential resources in water-power. Electric power is cheaper and more hygienic than steam power. It has been calculated that India can produce 17 million Horse-Power of electrical power with her present resources, of which she has developed so far only 2 per cent. The most important Hydro-Electric projects existing at present are the Tata Hydro-Electric Power Supply Company Ltd. at Lonavla in Bombay, the Tata Power Company Ltd. at Nila-Mula, the Andhra Valley Power Supply Company,

the Kauvery Scheme in Mysore, and the Kashmir Installation, while the Koyna Valley Project and the Mandi Project are under construction.

In Switzerland, Sweden, and Norway, where water-falls abound, hydro-electric energy is being utilised for a variety of industries, both large and small—the railways, irrigation, manufacturing industries as well as cottage industries. Prof: Radhakamal Mukherjee strongly recommends the wide spread use of Hydro-Electricity in India not only for making up for our Power deficiencies, but also for decentralizing our big industries, and for developing them on the lines of regional and village system.

Labour.

(2) The characteristics of Indian labour, and the factors that contribute to the comparative inefficiency of Indian labour, shall be studied in detail in the next chapter. Here we might point out the following main causes, associated with our labour, that are responsible for the industrial backwardness of India :—

(a) *The scarcity of labour supply.*

Industrialists have often complained of the, scarcity of industrial labour. This is due to the innate conservatism and love of rural life of the labourers themselves as well as the general ignorance about labour requirements in different mills and factories, the hopeless housing conditions in factory areas, the prohibitive cost of transport, the antiquated methods of labour recruitment and the uncongenial atmosphere of factory life. With better education and better provision of the amenities of life, this deficiency is likely to be overcome.

(b) The bad physique of the factory workers on account of the ravage of diseases, poor dietary, etc.

(c) The illiteracy and lack of technical training of the labourers

(d) The migratory character of Indian labour due to the rural bias of the labourers

(e) The lack of healthy trade union development among the workers

(f) The tropical climate and long hours of work with their deadening effect on human energies.

(g) The dilatoriness on the part of the Government and the employers in making the life of the industrial worker more easy and comfortable through legislation and otherwise.

Capital.

(3) The problems of industrial finance have been reserved for a subsequent separate treatment. We can here just point out some of the outstanding defects.

(a) Indian capital is proverbially shy. People love to lock up their savings in the form of ornaments, and when they invest, they like to do so in Government securities or in other safe investments.

(b) Indian industrialists generally make the mistake of depending upon banks for the supply of their working capital. They forget that part of the working capital is almost in the nature of fixed capital on account of its recurring demand.

(c) Further, the practice of its depending upon public deposits, as in the case of the cotton Mills of Ahmedabad, is also dangerous as these deposits have proved to be fair-weather friends. They wither up in times of difficulties.

(d) The absence of wide-spread mortgage-banking in India is another handicap.

(e) The absence of Industrial corporations, whether on a Provincial or on an All India scale, also retards the industrial development of India.

(f) Lastly, the preponderance of foreign capital in many industries makes it difficult for Indians to take any share in their development.

Organisation and enterprise.

(4) It is in this last factor that Indian short-comings are most pronounced. As Marshall wrote long ago, if India had a score or two of men like Mr. J. N. Tata and some thousands of men with Japanese interest in realities, she would soon be a great nation. So far Indian industries have been developed by a few firms of managing agents. This managing agency system has greatly outlived its usefulness. The importance of this subject is great enough to demand a separate treatment which will be subsequently made

Attitude of the State.

(5) Lastly, we might mention that the industrial backwardness of India is due largely to the laissez-fare policy pursued by the Government before the Great War. The "great dependency of India," as Justice Ranade styled it, was looked upon as field for colonial exploitation, as a perennial source of raw materials for British industries and as an ever-expanding market for British manufactured goods. It was only the Great War which opened the eyes of the Government to the military importance of an industrialised India, and since then the Government has been taking steps to encourage the development of Indian industries, though even now it betrays an equal, if not greater anxiety for British manufacturers. In this connection, we might also mention that Indian Railways, controlled mostly by the Government and partly by European capitalists, have systematically acted more as a step-mother than as a foster-mother to Indian industries.

The true lines of India's Industrial Advance :

The policy of Industrialism to which India is committed is not without its severest critics As we have already seen in the chapter on economic transition in India, Mahatma Gandhi has condemned it in unequivocal terms and has incessantly preached both by example and precept his immutable faith in *Charka* and the *Khaddar* India's public men, however, including some of the greatest followers of Mahatmaji himself, have never accepted this doctrine as a practical policy. And this seems to be the common-sense solution of the problem As Prof. Kale has observed, "Arcadian simplicity and rural bliss are now things of the past among us. Japan, a country of the orient, has shaken off its old garb and even the sleepy celestial Empire has been awakened from its slumber of ages The countries of what is called the Middle East are slowly preparing to follow Can India be a solitary exception ?"

But though India has rightly decided to adopt modern methods both in industry and agriculture, it will be highly unfortunate if she does not avoid the evils which have accompained Europe's experiments with modern industrialism In this connection, we must also admit that so far India has not shown any capacity or disposition to profit by European experience We can only hope that the future will have a different story to unfold

The main defects of western Industrialism have been the growth of mammoth industries in mammoth towns and cities leading to the desolation of the country side, and the accumulation of myriads of human heads in the congested regions of mills and factories.

The task of statesmanship in India is just so to orient our industrial policy as to steer clear of precisely these evils, and to make our industrialism a true expression of our social and natural needs, and as far as possible in keeping with the existing arrangement of our society.

Dr Radhakamal Mukherjee has advocated a form of industrial co-operation among our artisans in the village with the use of Hydro-Electric power which will help to develop modern industries on a small scale even in the remotest regions of the country where once

the village artisan plied his humble trade under the greenwood shade Dr. Mukherjee points out the following special circumstances favouring industrial co-operation among our artisans :—

"Our industrial population is organized into castes, marked by a spirit of association, solidity and co-operation in social dealings. The caste traditions and the character of the people are thus distinctly favourable to co-operation for industrial purposes. Again, the form of industrial co-operation is structurally akin to the economic methods of our village community

In the village Community, the village industrialists are paid by the villagers and the communal ownership of land, typical in the Indian village Community, links itself naturally to the communal ownership of machinery, and the implements of production, as well as the remarkable wares, which is the object of industrial Co-operation. Of course, only a visionary can suggest that the Industrialised India of the future will be an Idyllic state with every village, a well-decorated industrial centre which will be an absolute stranger to the storm and stress of modern industrial strife. Nevertheless, it should not be practically impossible to develop small industrial towns all over the country, and to retain as far as possible the homeliness and the healthy surroundings of the old domestic system, instead of swallowing up *lock, stock and barrel* the entire creed of western industrialism, and converting this holy land of ours into an East End of Europe"

Industrialisation of India and its benefits,

The Fiscal Commission summed up the following benefits of Industrial development in India :—

(1) It would increase the national dividend and thereby help to raise the standard of living of the people.

(2) It would restore the lost economic equilibrium by lessening the dependence of the people on agriculture.

(3) The profits of industry, being in a concentrated form, will help to swell the volume of Capital which will be available for fresh industrial investment.

(4) Industries will increase the real wages of labour by supplementing the farming income through the employment of those superfluous farming members who migrate to the town. Moreover industrial wages are higher than agricultural wages and on account of competition the former cannot but affect the latter.

(5) It would increase the taxable capacity of the country and bring increased revenue to the state.

(6) Lastly, the effect on the national character will be highly beneficial in that an industrial population is much more alert and progressive than an agricultural one. The greater contact between towns and villages is also likely to have a tonic effect on the character of the people as a whole.

(7) Industries have great military importance both for offence and defence.

(8) Lastly, we might also mention that industrialisation will go a long way towards solving the problem of our middle class unemployment.

Industrialisation : its effect on agriculture.

The above benefits, of industrialisation should not be discounted by the familiar argument that industrialisation will adversely affect Indian agriculture.

(1) It has been said that as Industries will attract an increasing number of men, the total food supply will become short on account of diminished production. This apprehension however, seems to be unjustified, as agriculture will be relieved rather than depressed if it is abandoned by a considerable number of the rural population.

(2) Moreover with improved methods, it is possible to

have a much increased volume of agricultural production with a much reduced number of actual agriculturists.

(3) Finally, it is a matter of indifference whether agriculture or industry holds the pre-eminent position in the national economy.

(4) In our opinion a policy of industrialisation far from hindering agriculture, will act as a great stimulus in various ways, both direct and indirect.

CHAPTER XIII

THE PROBLEMS OF INDUSTRIAL FINANCE.

Capital requirements of industries.

Industries require capital for two purposes :—

(1) Block Capital for financing fixed assets such as land, buildings, machinery etc. ; and

(2) Working capital for the purchase and working up of raw materials into finished products, for stores purchase etc.

While Block capital is permanent in nature, working capital is partly permanent and partly temporary in character. The relative proportion between block and working capital required in an industry varies with the nature of the industry.

European business men are of opinion that Capital required for financing fixed assets should in all cases be supplied by public or private subscription of shares or debentures of the undertaking. When an industry is thus well established, the Commercial Banks should supply the capital required to finance the floating assets on the security of stock and other liquid assets

Financial handi-caps of Indian industries.

Indian business men point out the following handicaps to Indian industries.

(1) It is complained that conservatism and lack of initiative make the banks very timid and prevent them from embarking on underwriting of industrial capital or even lending money on the security of industrial shares to any great extent. The Imperial Bank of India, for example, is debarred by statute from giving loans to Industrial Companies for capital expenditure. Even as regards floating capital,

the Bank insists on a margin of something like 80% which means that Industries have to provide not only the whole of the block-capital but also 80% of the working capital.

(2) Banks usually insist on a full backing of tangible and realisable security for their loans and take no account of the personal credit of the borrowers. This is not supported by British example.

(3) In times of depression Indian industries do not get the necessary sympathetic treatment from the Banks.

(4) The contention that Banks in India are not equipped with the technical knowledge necessary for valuing the assets of an industrial concern is certainly not true of large industries where sufficient data are available through balance sheets and reports from which the Bankers can form a correct opinion about the financial position of the concerns.

(5) At present, Banks finance industries out of short-term deposits. Though they are willing to renew these loans, from the point of view of the industrial concerns this position is precarious as the concern is not sure of getting a renewal.

6. A great deal of the Capital required by the Cotton Mills in Bombay is obtained directly by means of deposits from the public. This system is compared to a fair-weather friend as deposits are liable to be withdrawn in bad times.

7. The Imperial Bank of India is further accused of racial discrimination against Indian concerns.

8. The rates of interest charged to Industrial loans and advances are said to be generally much higher than the Industries can bear.

Besides the above defects in the Banking system the lack of Indian capital for Industrial Development is due to the following *factors* :—

(1) There is no recognised method in India by which the general public can obtain advice and assistance as regards investment in India. There are many urban centres with no bank to give some sort of advice. The stock exchanges function only in the large sea-ports and as such are beyond the reach of the up-country investor.

(2) The failure of many small Industries has also shaken the confidence of the public in industrial investment to some extent.

Hence there is a preference for safe investment in Government securities and cash-certificates.

(3) Another defect is the almost complete absence of Mortgage Banking in India due to following cases :—

(a) There is a class of Indian investor which looks for capital appreciation in its investment so that Debenture loans with a fixed yield of interest and with no prospect of capital appreciation have therefore no attraction for this class.

(b) Unlike the practice of other countries, Insurance Companies in India do not invest any considerable part of their surplus funds in Debentures.

(c) The heavy stamp duties on debentures and on transfers of debentures is also a great impediment in the way of Industrial debentures becoming popular.

(d) Small concerns cannot raise debentures. So special Institutions are necessary for these purposes.

(e) Moreover debentures will be acceptable only when profit is visible.

(f) The market for debentures is limited owing to general preference for investment in land.

(g) Debentures are generally monopolised by limited groups of financiers who do not try to create a general market for them.

(h) The success of a debenture issue also depends upon the nature of the security offered and where this was satisfactory as in the case of some Jute Mills, the public readily subscribed.

(i) Lastly, the Government is a great rival for capital. While Government security offers a very safe form of investment, industrial investment does not offer such security in view of the uncertainty in Fiscal Policy of the Government.

Remedies of financial handicaps.

Having studied the principal defects in the prevailing system of Industrial finance, we now proceed to analyse the principal lines of remedial action.

(1) *In the first place* for the supply of long-term capital we badly require Industrial Banks both on Provincial and on an

All-India basis. The Government must take the initiative in the creation of such an Institution either by subscribing a substantial part of the shares or debentures, or by a guarantee of interest. There should be a special expert Committee which will keep in touch with small industrialists in order to lay down a definite scheme of assistance, and to define the methods of such assistance. Pending the establishment of such Banks, the Industrial Commission suggests that the existing Bank or Banks in a particular locality should finance middle class industrialists by advance of loans to them subject to a guarantee by Government.

(2) *Secondly*, we have to establish an Intermediary between the general public and the Managing Agent who will be able, by his expert knowledge and financial strength, to inspire the confidence of the investor in the ultimate success of the concern He must be in a position to underwrite the shares in the first instance so as to relieve the Industrial concern of financial burden and give it expert information.

(3) *Thirdly*, in times of depression and also when amalgamation is proposed, some Institution is required which will not only afford advice and financial assistance to the Industry but may also assure the Public of the soundness of such schemes by impartial investigation

Lastly, the system of Mortgage-Banking should be systematically developed. It is then and then only that Industries can be rescued from their helpless dependence upon Managing Agents

INDIGENOUS VERSUS FOREIGN CAPITAL.

The Present Position as regards their relative importance.

1. It is almost impossible to form a correct estimate as regards the total amount of indigenous and foreign Capital

invested in the Manufacturing industries in India. The available statistics do not help us much as part of the Rupee-Capital is held by Europeans and part of the Sterling. Capital is held by Indians and further because Capital for manufacturing industries is sometimes combined with that for trading purposes and lastly because not all the capital of companies in India is utilised for the purely Indian Branch of the concern.

According to the evidence of the Associated Chambers of Commerce before the Simon Commission, the amount of British capital invested in India stands at £1000 million. Of these £400 millions are accounted for by Public and guaranteed loans, £60 millions by investment in Industrial and mining enterprises, and £340 millions by investments in plantations, Banking, Insurance, Trading and Shipping enterprises.

According to Dr. Soni about Rupees 1800 millions have been invested in purely manufacturing industries, and that, although sometimes Indian and sometimes foreign capital dominates whole groups of Industries, their strength is nearly equal. But the financial strength of foreign companies is really much greater on account of their greater credit facilities both in India and in London.

The greatest achievements of indigenous capital have been in the Cotton Mill Industry, Iron and steel Industry, sugar factories, water power installations and some minor enterprises like Paper Mills, Cement Works and small mines. Foreign capital, on the other hand, has triumphed in the Jute Mills of Bengal, Woollen Mills and Tanneries of Cawnpore and big Engineering Works and the most prosperous mines. Besides, foreign capital predominates in plantations, banking, insurance, trading and shipping enterprises.

The main cause of the supremacy of foreign capital in those spheres lies in the fact that Indians never understood

the science of Coal and Ore-mining, nor that of Tea, Coffee and Rubber. In Shipping, Engineering, Banking, Insurance, Wood, Leather and Jute, Indians suffered both from ignorance and lack of venturesomeness. In recent times the amount of indigenous capital has been coming out more freely. The Great War, in particular, made the Government realise the vast potentialities of the Indian money market for successful flotation of Government loans, and since then rupee loans rather than sterling loans have generally found favour in Government's eyes.

Nevertheless, the total capital resources of India are strictly limited. The amount of hoarded wealth is officially put at a much higher figure than it actually is. According to Dr. Soni Rs. 600 millions is all that that can be looked upon as the amount of capital available for Industrial purposes. As India's need for Industrial development is very great, it may not be possible to finance all our Industrial enterprises by means of indigenous capital. Hence the problem of foreign capital assumes great practical importance.

Conditions governing the utility of foreign capital.

The main issue before the country to-day is, how far it is desirable to follow the policy of 'open door' with regard to capital. Now, here we might mention at once that foreign capital can be imported into the country in two forms : (1) as loan capital ; and (2) as investment capital. In the former case, the foreigner gets only the interest until the principal is repaid. In the latter case, the foreigner gets both interest and profit. The example of other intensely nationalist countries like Japan and U.S.A. shows that in the first stage of industrial development, foreign capital in the sense of foreign loan is a great blessing, as otherwise the country would have to wait indefi-

nitely for its industrial development. India, therefore, should welcome foreign capital in this shape for her rapid industrial regeneration, although considerations of exchange, and of fostering habits of savings among Indians, should qualify our zeal even in this respect.

But the historical fact is that apart from subscriptions to the Government's sterling loans, foreign capital almost invariably came into India accompanied by foreign enterprise, and has thus deeply entrenched itself in some of the most prosperous major industries of India. The living question is, how far the free importation of this type of foreign capital is compatible with the true interest of the country.

Here, we at once confront fundamental cleavages of opinion between the official supporters and the general public of India.

Recommendations of the Fiscal Commission and their criticisms.

The Indian Fiscal Commission pointed out the following advantages that India might derive from foreign capital and foreign enterprise :—

(1) It will expedite the process of industrialisation and thereby increase the National dividend.

This proposition is, however, partly true in as much as the National dividend will be increased only through increased wages and not through increased profits. On the other hand, the country's natural resources might be exhausted, as in the case of the Indian coal-mines, for the enrichment of the foreign country.

(2) The Commission observed that the foreign capitalist imports into the country the technical knowledge and organisation which are necessary for Indians to learn before they

can themselves help to develop their country. This particular view is objectionable on the following grounds :—

Firstly, technical knowledge is largely an international property, and expert technologists are easily available to the highest bidders.

Secondly, the assumption that foreigners would voluntarily train Indians in the mysteries of their business, is entirely a baseless one, having regard to our past experience in this respect.

Thirdly, the view that by admitting foreign capital, India automatically admits the most up-to-date methods and the newest ideas and benefits by adopting those methods and assimilating those ideas is further objectionable as it suggests that Indian industries can progress solely by copying western methods and ideas, and that Indians as a race are congenitally incapable of producing any originality of methods and ideas in industrial matters.

Fourthly, if it was not necessary for France, Germany, the U. S. A., and Japan to invite British capitalists to further industrial regeneration, there is no reason why India should so helplessly depend upon them.

(3) Another advantage claimed for foreign capital is that it bears the cost of initial development and smooths the path of indigenous enterprise.

The advantage claimed would be real if there was any great possibility for Indians to step into the shoes once the initial stage is over. Unfortunately, however, the foreigners have shown no desire to abdicate in favour of Indians after pioneering some enterprise. Rather they have deeply entrenched themselves in Indian soil and have thwarted all efforts on the part of Indians to intrude upon their privileged positions.

By practising the economies of mass-production the foreigners have tried to set up monopoly for all time.

From the about analysis, we find that most of the arguments advanced in favour of foreign capital and enterprise are either wrong or are only partially correct. On the other hand, Indians have the following positive objections to the importation of foreign capital and enterprise :—

Positive evils of foreign capital.

(1) *Firstly*, the profits go out of the country and thereby the country becomes progressively impoverished. It is a pity that while the grinding poverty of the Indian masses remains unaltered, if not accentuated, British merchants should be able to maintain a most extravagant standard of living and create huge fortunes for themselves before they retire to their Mother-land.

(2) *Secondly*, it is notorious that foreign firms appoint as Directors and as members of their superior staff persons of their own nationality excluding the claims of highly qualified Indians. It is a pity that people who secure their livelihood on Indian soil have been allowed to discriminate against Indians at almost all points on sheer racial ground without hesitating to exploit fully Indian labour, whether manual or intellectual.

(3) *Thirdly*, foreign firms have the greatest reluctance to train Indians as apprentices so that one of the main arguments of the apologists of foreign enterprise in India has been proved to be absolutely baseless.

(4) *Fourthly*, the relations between labour and capital are not very harmonious even when both belong to the same nationality. In the case of foreign enterprise the combination of white capital and coloured labour has introduced a further

element of discord, as has been in evidence in the recent Railway and Jute strikes.

(5) And lastly, there is the overwhelming political objection against foreign capital in that it gives rise to vested interests which have proved to be a tremendous handicap on India's road to freedom. As we shall presently see, it is these vested interests which are responsible for very wide, far -reaching and even ubiquitous special powers of Governors and Viceroys under the recent constitution of India.

Suggested restrictions on foreign capital.

The External Capital Committee of the Indian Legislature after recognising the need for foreign capital, have suggested the following restrictions for the regulation of foreign enterprise :

(1) Foreign companies should be incorporated in India and registered with a Rupee-capital so as to enable Indians to purchase their shares.

(2). A proportion of the shares should be reserved for Indians in order to give Indians partial control over the management.

(3) A certain proportion of the Directors should be Indians, preferably chosen by Indian share-holders. This provision exists in almost all advanced countries including the United Kingdom.

(4) Foreign firms must take Indian apprentices for imparting Industrial training. The majority reports of the Fiscal Commission and the External Eapital Committee suggest these restrictions only in the case of those foreign firms which might receive any state-bounty or special concessions. The minority reports however, support these restrictions in all cases and in so doing that they have the backing of the entire non-official opinion in India. The majority also express the

apprehension that if these restrictions are made universal, foreign capital might be scared away to the detriment of Indian interest. We do not, however, find any basis for such apprehensions.

Foreign capital under the new constitution.

The generally accepted Indian opinion that the so-called new constitution is more an Act of policing than a charter of freedom no where finds greater confirmation than in the notorious clauses under the heading of what is euphimistically called "Safeguards" and "Commercial Discrimination."

(1) Sections 118 to 116 of the Government of India Act 1935 lay down in minute details that any Indian legislation, whether federal or provincial, which imposes any restrictions either on the right of entry into British India or by way of discriminatory taxation against British subjects or British Companies; or which denies to British Companies any facility by way of bounties, stores-purchase etc. which is conferred on Indian Companies, will be at once *ultra vires.*

(2) In particular, British shipping, whether coastal or oceanic, must be given the same amount of privileges and rights which might be conferred on Indian shipping in Indian Territorial waters.

(3) Besides the above statutory prohibitions, the Instruments of Instructions to the Governor-General and the Governors give wide discretionary powers to them in the matter of assenting to bills, enabling them to refuse their assent to any measure which, though not discriminatory in form, might have, in their judgment, a discriminatory effect.

(4) In case of doubt, the Governor-General and the Governors are required to reserve the Bill for the signification of His Majesty's pleasure.

(5) Besides, it is a special responsibility of the Governor-General and the Governors to protect British Companies against administrative discrimination and in the discharge of that special responsibility they are to be guided entirely by their own *individual judgment.* ....

(6) The above sections, however. are subject to the proviso that no company incorporated in, and persons domicited in the United Kingdom are to receive any benefits from them unless the law in the United Kingdom confers reciprocal benefits there on Companies incorporated and persons domiciled in India.

(7) It is further provided that the above sections will not affect the operations of any existing Indian law.

(8) Finally, it is laid down that if after the establishment of the Federation, a convention is entered into between His Majesty's Govern ment in the United Kingdom and the Federal Government in India, by which reciprocal treatment is assured, His Majesty may by Orders-in Council suspend the operations of these sections.

(9) All the above provisions apply to both existing and future British residents and Companies. From the above provisions against the so-called Commercial discrimination, it is clear that the British Government have statutorily abandoned the so-called Fiscal Autonomy, Convention which the British Parliament is supposed to have granted to India in 1917.

The hopes cherished by patriotic Indians of fostering Indian industries and enter-prises, and specially of reviving Indian coastal shipping which has been systematically destroyed by preferential treatment to British shipping in Indian Territorial waters in the past, have been ruthlessly dashed to the ground by the policy of open-door which in effect, has been established by the New Constitution in defiance of solemn pledges in the past. The face-saving provision of reciprocal treatment in the United Kingdom for Indian residents and Companies serves only to add insult to injury and deceives no one as regards the real motives of the British Parliament, as every body knows that Indians who cannot utilise their opportunities in their own home can hardly dream of daring the British Lion in his own den. It is a pity that while highly advanced countries like Germany are governed by principles of *autarchy*, india should be statutorily made so manifestly vulnerable to the onslaughts of British Imperialistic penetration at a time when the Indian new-fledged and highly sensitive Nationalism is clamouring to become the undisputed mistress in her own house.

The Managing Agency System

No study of the problems of Industrial finance in India will be complete without a clear idea of the so-called Managing Agency System with which Industrial development in India has been so far, except in regard to Joint Stock Banking, almost completely bound up. The Managing Agency is a private partnership of 3 or 4 members usually related to one another. The Cotton Industry of Bombay, Jute, Coal, Tea of Bengal and the Indian Sugar and Iron and Steel industry, all are managed by the Managing Agents. They are responsible for a large part of the Capital, both fixed and working. They purchase raw materials, supervise the manufactures, sell the products and control the management in all spheres. When Banks require guarantee, the Managing Agents give the same. Thus, in many ways, the Managing Agents have rendered yeomen's service to the cause of Indian Industrial development.

The Managing Agency System has, of late, come in for severe criticism. Before dwelling upon them we might, at first, point out some of the advantages of the system :—

Advantages of the System.

(1) In the absence of wide-spread banking facility and of a large nnmber of industrial entrepreneurs, the system was the only possible instrument for beginning the Industrialisation of India

(2) Again financially individual concerns have been better able to withstand depression or overcome the initial difficulties of every new activity, because of the financial standing of the Managing Agents.

(3) The Managing Agents have realised some of the economies of vertical combinations because of their control over a number of allied trades and industries.

(4) Lastly, they have also attempted to secure uniformity of dividend in the various concerns they control.

Defects of the Managing Agency System.

The system, however, has lent itself to the following abuses :—

(1) The ownership of the Agency, at least so far as the Indian type is concerned, is entirely governed by the *hereditary principle*, so that the management often passes into incompetent hands. In this respect, the European Managing Agency System is decidedly better. Under it the original founders have their family represented on the firm from period to period but there is always an outside element brought into the business which brings with it not only some capital and industrial experience, but some technical knowledge as well. Recruitment takes place generally from the firm's senior assistants.. Such an arrangement retains the best features of the *hereditary* system and the *selective* system.

(2) Thus, because of its very constitution, the Indian managing system has been financial rather than industrial. There has been a lamentable lack of technical knowledge on the part of the Agents.

(3) Again, Indian managing firms lacked continuity, as the powers of assigning the rights of Agency firms vested with managing agents were exercised without any reference to the desire or the feeling of the share-holders or the interest of Industrial Companies.

(4) Again, while the Managing Agents themselves may be efficient, they have benefited themselves rather than the company. They have been charged with taking secret commissions in the course of their buying and selling transactions undertaken on behalf of the firms.

(5) Again there is little division of labour within the

Agency organisations and the control exercised by the Agents in the details of the business is admittedly very slack and unsatisfactory.

(6) The Managing Agents have not always been business-like in their methods, as the losses in one concern have been covered by profits in another.

(7) Their policy of declaring high dividends in times of prosperity, without making adequate provisions for reserve-funds, is also largely responsible for the vulnerability of of Indian concerns in times of depression.

(8) Further, the Managing Agents have not sometimes hesitated to utilise the profits of businesses for their own private expenditure.

(9) The Managing Agents have seldom attempted to rationalize their businesses. The present system of labour recruitment in the Bombay Cotton Mill Industry is highly defective, based as it is on the Sardar System. There is almost a complete absence of record-keeping. Nor a little of the troubles of the cotton Mill Industry is due to labour difficulties which the Managing Agents never tried to solve. Again Managing Agents have never tried to eliminate waste specially in the matter of coal consumption. There is no provision for keeping adequate information and accurate data. Marketing and industrial research has been almost completely neglected, though, of late, some start has been made in this direction. The unhappy state of Indian-owned Collieries is largely due to the absence of amalgamation which might have proved to be a great boon.

As Dr Lokanathan has observed, the old-fashioned type of men who have made some money in trade and commerce, and gained some knowledge of industry by empirical methods of

management, are definitely an anachronism under modern conditions.

(10) Lastly, the remuneration of the Managing Agents, having regard to their incompetence, must also be regarded as excessive. So far, their remuneration has taken the following forms :

(a) A certain fixed annual sum is paid for their head office expenses.

(b) A minimum commission is paid under all circumstances.

(c) They also receive a commission either on *production* or on *sale* or on *gross profits*.

(11) An incidental result of the system has been the reduction to almost superfluity of the Boards of Directors required by law for various firms. Where so much depends upon Managing Agents themselves, the duties of the remaining Directors have inevitably been merely to satisfy the legal requirements. The same set of "friends" has been nominated for all the companies under the Managing Agency firm, and has played a strictly gramophone role.

Such, then, are the principal merits and demerits of the Managing Agency system.

The system as modified by the Companies (Amendment) Act of 1936.

Some of the more glaring defects of the system have, of course, been sought to be remedied by the recent Indian Companies (Amendment) Act of 1936.

(1) The Act limits the term of office of a managing agent to twenty years at a time, restricts transfer of his office, provides for his removal for fraud or breach of trust, prescribes as his renumeration a certain percentage of the net profits besides a minimum payment in the case of absence or inadequacy of profits and an office allowance to be defined in the agreement of management.

(2) Again no Company shall make to a Managing Agent of the Company any loan out of moneys of the Company or guarantee any loan made to a Managing Agent, though the Managing Agent may have a current account credit within limits previously approved by the Board of Directors.

(3) Moreover, except with the consent of three-fourths of the directors, present and entitled to vote on the resolution, a Managing Agent shall not enter into any contract for the sale, purchase or supply of goods and materials with the Company.

(4) No Company, incorporated under the Amendment Act, which is under the management of a managing agent or agents shall make any loan to, or guarantee any loan made to any Company under management by the same managing agent ; and no Company shall do the same after the expiry of six months from the commencement of the Act except in certain circumstances.

(5) A managing agent shall not exercise in respect of any Company of which he is a managing agent, a power to issue debentures or, except with the authority of the directors, a power to invest the funds of the Company.

(6) A managing agent shall not, on his own account, engage in any business which is of the same nature as and directly competes with the business carried on by a Company under his management.

(7) A managing agent, whose office is terminated, shall, upon such termination, be entitled to a charge upon the assets of the company by way of indemnity for all liabilities or obligations properly incurred by the managing agent on behalf of the Company.

(8) If a Company is wound up either by the Court or voluntarily, any contract of management made with a managing agent shall be thereupon determined without prejudice, however, to the right of the managing agent to recover any moneys recoverable by the managing agent from the Company, provided, in the findings of the Court, the winding up is not due to the negligence or default of the managing agent himself.

(9) The directors, if any, appointed by the managing agent, shall not exceed in number one-third of the whole number of directors.

(10) Finally, we might mention that for the first time in Company law, a statutory definition has been conferred on the term Managing Agent. "Managing Agent means a person, firm or Company entitled to the management of the whole affairs of a Company by virtue of an agreement with the Company, and is under the control and direction of the directors except to the extent (if any) otherwise provided for in the agreement and includes any person, firm or Company occupying such position by whatever name called."

Criticisms of the Amendment Act.

Such then are the main provisions of the new Amendment Act and they are mainly aimed at Managing Agents. In many respects the new Company law will remove many of the glaring abuses which have crept into the Managing Agency system. Nevertheless, it has the following principal defects :—

(1) The 20 year's term of tenure, though generally desirable, is certainly un-necessary for well-established industries which can thrive without the driving force of Managing agents whose energies could be diverted to more fruitful channels and to the growth of new industries.

(2) Again, under the new law, the Managing Agent is removable, within the term of his appointment, only if he is convicted of an unbailable offence in relation to the affairs of the Company, under the Indian Penal Code. There is absolutely no reason why a person guilty of fraud, whether arising out of the affairs of the Company or not, should not be removable from his office if he forfeits the confidence of share-holders.

(3) Again the section by which Managing Agencies are terminated automatically at the end of 20 years may not really be in the interests of the share-holders themselves, as the Company is saddled with a liability for compensation whose nature and extent can probably be ascertained only after fighting a suit. In addition, the probable effect of the section will be to deprive the Company of financial assistance from the Managing Agent, which it otherwise might have had, for a long period before the termination of the Agency.

Conclusion.

Such then is the new position of the Managing Agents under the Campany law. Before we conclude, we might say a word about the future of the Managing Agency system. The European branch of the Managing Agency system will no doubt continue to exist for a considerable period both on account of the dearth of European entrepreneurs in India and also because it is based both on hereditary and selective principles. The future of the Indian type, however, is doubtful. The Company law has tried to do its best to protect the interest of share-holders who in the past have been cheated by the Managing Agents. But the real solution will come when Indian business will be bold enough to strike out an independent path of its own without coming within the vortex of a limited group of Managing Agents.

THE FISCAL POLICY OF INDIA.

A Historical Survey.

The policy of British India in the days of the Company was governed by the old ideas of colonial exploitation. While the exports of Indian Cottage products were penalised by high British import duties, or altogether prohibited, British imports into India were admitted practically duty-free. Britain wanted to make India the source of her raw materials and the market for her manufactured goods, and this policy was successfully pursued both in India and in Great Britain. Discrimination was made not only against non-British goods, but also against non-British shipping. Thus there were practically *four rates* of import duty :—(1) one rate for British goods carried in British ships. (2) Another rate for British goods carried in non-British ships. (3) A third rate for non-British goods carried in British ships. (4) A fourth rate for non-British goods carried in non-British ships.

Besides differential import duties, there were was also a number

of inland transit duties, a heritage of the previous Moslem administration, which also grealty hampered internal trade and production.

It was in the forties of the last century that some beneficent changes were introduced in India's Fiscal system. In 1844 the inland duties were abolished, while in 1848 the policy of penalising non-British shipping was withdrawn. Liberalism scored another triumph in 1859 when British and non-British goods came to be treated on exactly the same footing.

After 1860, in India as in Great Britain, free trade ideas gradually gathered strength. Mr. James Wilson, the first Finance Member of India, reputed as a free trader, aimed at a uniform import tariff rate of 10 per cent. ad valorem in 1860. Gradually, even this moderate rate was reduced so that in 1867 a large number of articles was added te the free list, while in 1875, all export duties were abolished except those on indigo, rice, and lac.

Meanwhile the Manchester Chamber of Commerce was growing impatient at the retention of the import duty on Cotton piece-goods. Lord Salisbury, the then Secretary of state for India, brought pressure on Lord North-brook, the then Viceroy of India, to remove the cotton duties. The latter, however, remained firm as the abolition would cost India £300,000 which India was not in a position to do without. A bitter struggle went on between White-hall and Calcutta (the then Capital of India) leading to the ultimate resignation of Lord North-brook.

**The next Viceroy, Lord Lytton, came with the avowed determination to placate Lancashire, though he had to wait till 1882 when not only duties on cotton but also all other import duties with one or two minor exceptions were abolished.

From 1882 to 1894 India was practically a free trade country. In 1894, however, the Government was forced to impose many import duties for revenue purposes as it had sustained heavy losses on account of the depreciation of silver. At first, cotton was exempted as a sop to Lancashire, but, later on, it was found impossible to do withot cotton duties. At the same time, however, the Government imposed a counter-vailing

cotton excise duty in order to silence Lancashire's opposition. This last action of the Government set the whole heather on fire and became a standing political grievance in India. Hence forward, a close alliance gradually developed between Indian political aspirations and India's Cotton Industry.

In 1899 a counter-vailing Sugar Duties Act was passed, empowering the Government to impose a special duty on bounty-fed sugar equal to the amount of the duty. This duty was withdrawn in 1902 in the cases of the countries which were signatory to the Brussels Sugar convention, and in 1912 it was finally dropped.

The Great war proved to be another great land-mark in India's tariff history The extra-ordinary expenditure during the war compelled the Government to impose higher duties on various commodities, luxury goods being taxed at the highest rate. The war also witnessed the birth of two new export duties, known as "war babies", namely the duty on Jute and the duty on hides and skins. The latter duty has been repealed during the course of 1934 and 1935. Lastly, the war was responsible for making customs revenue the most important source of revenue to the state.

The high customs duties during the war as well as the cutting off of foreign imports, helped to bring into existence a large number of nascent industries or a great expansion in some of the old industries. When the war stimulus was over, however, the need for artificial protection to some of these industries became manifestly clear to everyone. Accordingly the Indian fiscal Commission was appointed to examine fully the whole question of Protection and Imperial Preference, as far as it concerned India. The Commission, recommended a policy of Discriminating Protection for India which has since been adopted by the Government. We shall

now discuss at length the whole question of Protection and the main arguments for and against the policy of protection for India in the light of the Commission's reasonings.

The Main Case for Protection.

The classical Theory of Free trade can be summed up in two main propositions: (1) First, the labour and capital of a particular country, if they are allowed to move along their natural channels without any artificial help or hindrance, will flow into those industries in which the countrys enjoy the greatest natural advantages; *Secondly*, the maximum wealth of a particular country and of the world as a whole, will be secured if every country specialises just in those branches of production where it has got the greatest natural advantages.

As the Fical Commission has observed, the fundamental rationale of protectionism springs from just those limitations and qualifications which are inherent in the classical theory.

(1) In the first place, as Pigou has observed, the commodities which a country can produce most easily are not necessarily identical with those in which it has the greatest natural advantanges For, natural advantages requite for their development both time and exercise. This is the famous Infant Industries argument, first advocoted by Alenander Hamilton and subsequently popularised by Fredric List in his National System of Political Economy. We quote below the classical statement of the theory as given by J. S. Mill:— "The only case in which, on mere principles of Political Economy, protective duties can be defensible, is where they are imposed temporarily (especially in a young and rising nation) in hopes of naturalising a foreign industry, in itself perfectly suitable to the circumstances of the country. The

superiority of one country over another in a branch of production arises only from having begun it sooner. There may be no inherent advantage on one part, or disadvantage on the other, but only a present superiority of acquired skill and experience. A country which has this skill and experience yet to acquire may in other respects be better adopted to their production than those which were earlier in the field......A protecting duty, continued for a reasonable time, will sometimes be the least inconvenient mode in which the nation can tax itself for the support of such an experiment. But the protection should be confined to cases in which there is a good ground of assurance that the industry which it fosters will after a time be able to dispense with it."

The Indian Fiscal Commission has rightly advanced the Infant Industry argument as the main justification and the theoretical plank for protectionism in India. *In the first place*, India belongs just to that stage of industrial "culture"—the agricultural-manufacturing stage, in which protection, according to List, can be the best instrument for national reconstruction. *Secondly*, India, though a very old country, is, in an industrial sense, quite a young and rising country. She has vast natural resources, a large home market, and a large potential supply of labour. *Thirdly*, the comparative industrial inefficiency of India may be due not to any inherent natural causes, but to the fact that India came very late on the industrial field.

(2) Another argument for protection advanced by the Fiscal Commission is the *Diversified industry argument*. The overwhelming preponderance of agriculture in India has made the people extremely conservative and immobile. Even if free trade were best calculated to maximise the wealth of the people, protection is necessary to secure an all-round development of the national character, at the expense, if necessary, of a part

of its opulence. As List has observed, the power of producing wealth is more important than wealth itself.

(3) *Thirdly*, the Commission advocated the *defence argument*. The country must develop its military industries with the help of protection for the sake of national defence.

(4) *Lastly*, the Commission mentioned the *Basic Industry argument*. Basic industries like Iron and steel etc. must be rapidly developed with the help of protection in order to make India industrially self-sufficient.

Besides the above main arguments, the Commission also referred to the *wage-arguments* and placed some unnecessary stress on the so-called *Revenue-argument*. In the opinion of the Commission, protection will enable industrialists to pay higher wages to labour and thereby benefit labourers. This argument, however, is rather weak inasmuch as labourers can ultimately increase their wages only by increasing their efficiency. As regards the Revenue argument, it has been said that the large number of protective duties will incidentally serve to enhance income from customs duties. This theory, however, is inherently unsound inasmuch as considerations of protection and revenue are rather conflicting. The revenue ideal is that imports should be as large as possible in order to bring increased income to the state; while the protectionist ideal is that imports should be as small as possible in the interests of domestic producers.

Though theoretically there is a clear case for protection in a country like India, the Commission was not unaware of the costs and dangers of protectionism.

Case against Protection.

(1) *In the first place*—Protection acts "as a great burden on consumers inasmuch as once it is imposed, it is difficult

to get rid of it. The infant continues to be an infant always; nay, it becomes more and more an infant demanding increasingly higher protection. The argument has great force especially in a poor country like India.

(2) *Secondly*—it is a notorious fact that Tariffs breed vested interests and thereby try to prevent measures calculated to maximise general welfare.

Thirdly—a tariff in the long run acts as a premium upon inefficiency as in the case of the Indian cotton mill industry.

Fourthly—the tariff, if not the mother, is generally the foster mother of all trusts, as has been illustrated from American experience: and a gigantic trust, once it has come into existence, will perpetuate itself by corrupting the legislatures, by influencing the Press and the Railway authorities and by means of various unfair clubbing devices.

Fifthly—tariffs have exercised a predominantly regressive influence on the tax system as a whole by taxing necessaries and raw materials of industries, and has also brought about a redistribution of the National Dividend in the direction of greater inequalities of income among the different economic and social groups in the country.

Sixthly—tariffs while helping the Basic Industry has actually prevented the development of more developed national industries which have to import machineries, plants etc. at a greater cost.

And *finally*—India shares with the world the responsibility for progressive dwindling of international trade which has not only affected the economic prosperity of the world as a whole, but also has bred a great deal of mutual discords and antagonisms which again are largely responsible for the political tension of the contemporary world.

The friends and critics of Protection have employed many

other subsidiary arguments to strengthen their own case. For our present purposes, however, the above reasonings are quite adequate and to us, on balance, the protectionist case seems to be much stronger, though as Dr. H. L. Dey has rightly pointed out in his *Tariff Problems of India*, the protectionist aim could be much better fulfilled by the Bounty method than by the prevailing method of Protective import duties.

Policy of Discriminating Protection.

The Fiscal Commission advocated a policy of Discriminating Protection for India which has been since adopted by the Government. Discriminating Protection, as Sir Jehangir Coyajee has pointed out in his 'Fiscal Problem of India,' is bound and governed by the principles of comparative costs.

First—It means protection not to any and every industry but only to those industries which can legitimately be expected to derive genuine benefits from Protection.

Secondly, Discriminating Protection confers just that *rate* of protective duty which will serve to equalize the domestic and the foreign costs of production. The rate of duty is to be progressively scaled down with the gradual development of the domestic industry.

(3) And *finally*, it means that the rate of duty must be *limited in duration*. Protection must be temporary in order to be scientific, or it ceases to be scientific at all.

Thus as Sir J. C. Coyajee has pointed out, the *formula* of discriminating protection has broken through all the old familiar jargons and shibboleths, and hit the nail on the right head.

Main conditions for the grant of protection.

The Fiscal Commission laid down the following main

conditions which must be fulfilled by an industry before it can be entitled to protection :

(1) The Industry must be one which must have great natural resources.

(2) It must be one which either could not develop at all without protection, or could develop only very slowly which is against the national interests.

(3) It must be ultimately able to do without protection and to withstand world competition.

To examine the claims of different industries the Commission recommended the setting up of a Tariff Board consisting of eminent experts whose intelligence and honesty are above question. The personnel of the Tariff Board, however, at present, has not inspired the necessary amount of public confidence.

Protective duty versus Bounty.

Protection can be granted to an industry not only by imposing an import duty but also by conferring bounties. Though the latter method directly involves much costs, it has got the following advantages over its rival.

(1) Since its burdens and benefits are both definite and direct, the administration of a bounty system is calculated to be more careful and rational.

(2) It does not involve any inequitable distribution of the burden of protection among the different income groups.

(3) Since the cost of a bounty system is a definite and ascertained sum, it easily lends itself to being administered from the point of view of a wise distribution of the aggregate available funds among the different alternative lines of national development.

(4) While a system of protective duties, like monetary inflation, produces a comprehensive and all-embracing series of changes in the economic relations among the several producing and consuming groups within the community, and thus introduces, in course of time, far-reaching alterations in the structure of the economic system, a bounty system does not give rise to such serious consequences.

Drift towards Imperial Preference.

The term, Imperial Preference, means that commodities, imported from Empire countries will be more favourably treated, as far as import duties are concerned, than commodities imported from foreign countries. The purpose of this preferential scheme is *first* to make the Empire as much as possible economically self-sufficient and *secondly*, to bind together the different parts of the Empire in close economic ties.

Before we proceed to review India's position vis-a-vis Imperial Preference, it is well to point out some of the chief implications of the Preferential scheme.

Preference and Protection compared.

(1) *In the first place*, Preference and Protection go together. In a Free trade regime, there is no room for giving preference to commodities of any particular origin. This is the reason why Britain could not grant any Imperial preference before she adopted the protectionist policy, although the self-governing colonies made their first gesture of good-will as early as 1897.

(2) *Secondly*, and in another sense, Preference and Protection are rather conflicting considerations. The purpose of protection is to develop *domestic industries*, at the expense of domestic consumers, by restricting Foreign imports as much as possible; the purpose of preference is to develop *Imperial*

Industries as much as possible, by discriminating against foreign countries in favour of the Empire countries.

(3) *Thirdly*, the Government stands to lose, as far as customs revenue is concerned, in the same way in both the cases. In the case of protection, as prices are determined by the foreign costs of production plus the protective duty, the difference between domestic costs and prices goes into the pocket of the domestic producer. Similarly, under Imperial preference, the difference between the higher rate for foreigners and the lower rate for Empire producers is appropriated by the latter at the Government's expense.

(4) *Lastly*, as Imperial preference does not deny the primary claims of the domestic industries to protection, it generally results in the imposition of higher duties on foreign products, and not of lowered duties on Empire products, the pre existing general level of duties being regarded as essential in the interests of protection. Thus tariff walls are raised up, the volume of international trade shrinks up, and the relations between the Empire countries and the foreign countries become strained. Thus Imperial Preference might generate Empire-good-will at the expense of Inter-national good-will. There are some countries which even regard Imperial preference as a breach of the most favoured Nation clause of commercial treaties.

India and Imperial preference.

With the above preliminary observations on the fundamental nature and essential implications of Imperial Preference, we proceed to discuss in general terms only the applicability of the doctrine in the special case of India.

To begin with, as early as in the days of the Company, India was compelled by her foreign rulers to grant a large

degree of preference both to British goods and to British shipping. Nobody, of course, can call it Imperial Preference, as the essence of preferential treatment is its purely voluntary nature. In recent times even before the Ottawa Agreement, the Government of India introduced Imperial preference in India through the back-door while granting protection to the Indian Iron and Steel, and Cotton industries. Similarly, the Ottawa Agreement was negotiated on behalf of India by representatives who did not command the confidence either of the general public or of the mercantile classes in India, and it was subsequently ratified by a 'packed' Assembly. Among the first triumphs of the Congress Party in the present Indian Legislative Assembly, has been the denunciation of the Ottawa Agreement, though the government is still continuing its operation by executive action pending the conclusion of a new Agreement.

Indian objections to Imperial Preference.

The great majority of Indian public men have condemned Imperial preference on both *political* and *economic* grounds.

(1) Politically, it has been said, India can not feel for the British Empire in the same way as the other self governing Dominions for the following reasons :

(*a*) The Dominions have been granted the substance of independence, but India is still dependent upon Great Britain in practically all vital matters. A slave can not naturally be expected to entertain very friendly feelings towards her master. Co-operation to be genuine, presupposes equality of status on the part of both the co-operating parties. As India's political status is so manifestly inferior to that of the other members of the British Commonwealth of Nations, India can not be a willing partner to any scheme of Imperial Co-operation.

(2) *Secondly*, while the British Dominions are bound to

Great Britain by many racial and cultural ties, India has no such links. The necessary emotional back-ground for joining in any scheme of economic co-operation is thus absent in the case of India. On the contrary, the anti-Indian legislations of some of the British Dominions have greatly served to embitter Indian's relations with them.

(3) *Thirdly*, and this is the most vital point, Imperial preference does not, on a critical examination, seem to be sound business proposition for India. Broadly speaking, India is an exporter of food-stuffs and raw materials, and an importer of manufactered goods. The natural course of India's foreign trade since the war has been marked by a drift from the Empire to non-Empire countries. Imperial preference, in as much it involves an artificial alteration of the natural course, can not obviously be in India's best interests. It is rather a device to help British manufacturers who are being ousted from neutral markets for their relative inefficiency. (For a detailed critical account of the Ottawa Agreement see the chapter on India's Foreign Trade.)

Conclusions.

From the above analysis, it is clear that India's present Fiscal Policy is somewhat anomalous. On the one hand, we are supposed to enjoy complete Fiscal autonomy which the British Parliament conferred on us in 1917. On the other hand, we find that the path of our freedom has been strewn with many barriers and pitfalls. The policy of discriminating protection which India has adopted on the recommendations of the Indian Fiscal Commission has not always been carried out in practice. The members of the Tariff Board have generally been rather safe men,—safe, that is, from the British point of view,—and Indian business opinion seems to incline to the

view that the authorities have been rather indiscriminate in refusing proper aid to many a deserving Indian industry.

Above all, the introduction of Imperial preference into India's Fiscal System at first by under-hand and surreptitious methods, and subsequently in an open manner has dangerously complicated India's Fiscal System. There is a real danger that the true interests of Indian industries may be sacrificed in British Imperial interests. The clauses of the New constitution, which have been euphemistically described as provisions against Commercial Discrimination, lend further authoritative countenance to the general suspicion that the so-called Fiscal Autonomy Convention of India is no more than an empty phrase, a meaningless jargon in diplomatic parlance, which has been invented to serve as an eye-wash to foreigners as well as the general public of India.

CHAPTER XIV.

INDUSTRIES (Continued)

I. THE IRON AND STEEL INDUSTRY

The history of the Industry.

The earliest beginnings in this industry were made when the Barakar Iron works and the Bengal Iron and Steel Co. were started in 1874 and 1889. The annual production at the beginning of the present century was about 35 thousand tons. The next great land-mark in the history of this industry is associated with the name of Mr. J. N. Tata. Realising the possibililies of a large-scale Iron Industry in India in the Singbhum district, Mr. Tata in 1902 undertook an extensive tour in the Iron-districts of Great Britain and U.S.A., and finally secured the services of a firm of Consulting and Mining Engineers. At this stage Mr. Tata retired and his successors carried on his work. In 1907 the Company was established at Sakchi. Between 1908—10 the Jungle village was developed into a highly industrialised city renamed Jamshedpur. Pig Iron was first produced in 1911 and steel in 1913. The Great war came as a great boon to this infant Company, when it helped the Government by providing large quantities of rails and slippers for military Railway in Mesopotemia, Palestine and East Africa. The success of the Tata enterprise encouraged the flotation of some new Companies, such as the Indian Iron and steel company founded by Messrs Burn & Co, in 1902 at Asansol ; the United Steel Corporation of Asia started in 1921 by Messrs. Bird & Co. at Manohorpur, the Eastern Iron Company and the Mysore state Iron Works started at Bhadhorbatty. The marvellous expansion of the Industry can be easily understood from a

study of the figures of production and imports. Whereas at the beginning of the century the total production of pig Iron was only 35 thousand tons, in 1914 it was 162282 tons, in 1929 it was 1376000 tons. The quality of the pig iron is not a whit inferior to that of the best continental product.

The production of steel advanced from 139433 tons in 1916-17 to 2599565 tons in 1927-28, and that of finished steel from 98726 to 428654 tons during the same period.

Inspite of her increase in production, India is still dependent to a large extent upon foreign iron and steel. In 1929-30 the total amount of imports was valued at Rs. 17.16 crores.

Protection to the Iron and Steel industry.

With the adoption by the Government of India of the policy of discriminating protection in 1923 the Tata Steel and Iron Company applied for protection to the Tariff Board.

From the very beginning, the Indian Steel Industry has been veritably the prize-boy of the Government and Legislature. There are several reasons for this unique position. First, being the greatest single modern Factory in India, it is a National pride and asset. Secondly, it is a military industry and its military usefulness was sufficiently demonstrated during the war. Thirdly, it is an infant industry with great natural advantages by way of raw materials, power resources, home market etc. And lastly, it is a basic industry upon the progress of which largely depends the future industrialisation of India. Thus, the industry satisfied all the tests, and accordingly the Tariff Board rocommended protection.

The Steel protection Act of 1924.

The first steel protection Bill was passed in 1924. The

duties on steel bars were fixed at Rs. 40 per tons and on sheets at Rs. 30 per ton.

For 3 years bounties were given at diminishing rates on steel rails and fish-plates.

The Engineering industry was protected by higher duties on imported fabricated steel. The wagon industry was also protected by a grant of bounties for 5 years. The tinplate industry was protected by a specific import duty of Rs. 60 per ton. Certain classes of steel wire and wire nails were protected by specific duties of Rs 60 per ton.

Owing to the fall in the price of continental steel, a further bounty was granted in 1925. In 1926-27 another Tariff Board was set up to examine the case of the steel industry for the continuation of protection.

The Steel protection Act of 1927.

The Tariff Board submitted its first report in 1926, and recommended the continuance of protection on certain lines for a further period of 7 years. Accordingly, a Bill was passed in 1927. It imposed different rates on certain iron and steel articles with a basic duty on articles of British manufacture and an additional duty on articles of non-British origin. This clever introduction of the principle of Imperial preference, raised much hue and cry in the Legislative Assembly. On the submission of the second report by the Tariff Board in 1927 the steel industry protection Act of 1928 was passed. As regards wagons and under-frames, the previous bounty scheme was discontinued. A revenue duty of 10% maintained and the Government undertook to place all orders in India. As regards steel bolts and nuts a specific duty of Rs. 2 per cwt. was imposed in place of the existing *advalorem* duty of 10%.

Protection to wire and wire nails was discontinued though

it was revived again by the Wire and Wire-nail Industry Protection Act of 1932.

The Ottawa Agreement of 1933, necessitated some changes in the Tariff arrangement though, as regards Iron and Steel goods, the preference extended only to those commodities which were not subject to the protective duties.

The Steel Protection Act of 1934.

* The publication of the Tariff Report which preceded the passing of the Steel Protection Act of 1934 confounded many of the fears and prophecies that orthodox free traders had uttered ten years ago. It revealed the reduction in costs achieved by the Industry despite the strike of 1929 which alone accounted for a loss of 3% in annual profits over a period of six years. The profit had been 2½ % per annum, and Rs. 400 lakhs had been set aside for depreciation Compared to 1926, fair selling prices were considerably reduced. The need for protection was now confined entirely to competition from continental imports. The amount of protection recommended by the Board on all the products manufactered by the steel industry averaged at 3·5 p.c., on the assumption that the revenue duty on unprotected steel would be about 15 p.c. The Tariff Board liked to see internal competition and held that there was room for another steel works, and believed that the success of the Tata Company should encourage the establishment of another. There is a market for another 250,000 tons, and the new company should manufacture things not done by the Tata Company. The Board recommended an agreement between the Railway Board and the Indian steel industry for the supply of all rails and fish-plates to the former. The Board, while appreciating the Company's welfare arrangements, censured its attitude towards the re-rolling mills, "the minor children of

the industry." Following the recommendations of the Board, in 1934 a fresh Iron and Steel Duties Act was passed. A considerable reduction in the level of import duties in certain important cases has been made. On account of the reduction of customs revenue, an excise duty of Rs. 4 per ton has been imposed on the production of steel ingots in British India with a countervailing Customs duty in addition to the protective duties on imported steel ingots. The existing rate of protection is to last till the year 1941 by which time it is hoped the Indian Iron and Steel industry will be able to stand on its own leg.

II. THE INDIAN JUTE MILL INDUSTRY

The history of the Industry.

The first Jute mill was started at Rishra near Serampore in Bengal in 1855. For the first 30 years progress was slow, though there were brief periods of great prosperity. The total number of power-looms in 1881 was 5000. Since 1885 there has been a larger output of hessian cloth than of gunny bags. Between 1877 and 1915 there has been a growth of 2400% in hessian looms compared to 430% in sacking looms. The Great War acted as a great stimulus to this Industry on account of the demand for sand-bags for the trenches and Jute canvas cloths for various purposes : At first and for many years, Dundee was the centre of the Jute Manufacturing Industry. The leadership, however, is now held by Calcutta in as much as about 2/3 of the raw Jute grown is now consumed by the Bengal mills.

The peculiarity of the Jute Industry is that it is highly centralised ; most of the Indian Jute Mills being situated near about Calcutta. Secondly and as distinguished from Indian Cotton Mill Industry, it largely represents European Capital and management. Thirdly, it is the most highly organised industry

in India. Most of the Mill-owners are members of the Indian Jute Mills Association which facilitates the adoption of concerted action as regards hours of work, adjustment of supply to demand etc., though of course there are some Mills generally under Indian control which refuse to be bound by the above regulations.

The present position : the difficulties of the Industry.

The great depression which started in 1929 has greatly affected the Jute industry in common with other industries of the world. The difficulties confronting the Industry are both *internal* and *external*. *Externally*, the demand for Jute manufactures has diminshed for various reasons : *First*, several substitutes like the Russian flax and German hemp have come to be resorted to both on grounds of cheapness and of economic nationalism. *Secondly*, the demand for gunny bags for the carriage of agricultural goods has also diminished partly on acccount of the dwindling of inter-national trade and partly because their use can be dispensed with as grains can be kept in elevators, or loaded on wagons or ships without any containers at all.

Thirdly, Exchange difficulties, restrictive duties, quotas etc. have also affected the foreign demand for Jute manufactures.

Fourthly, there is a serious competition of foreign jute manufactures. For example, many jute mills have recently sprung up in Central and South-eastern Europe, and in Japan. These mills have more modern machinery than Bengal mills. They are hampered by no Restriction Scheme of their own, and they profit from the Indian Restriction scheme which tends to keep up the price of Calcutta's manufactured exports thereby enabling the foreigner to undersell Calcutta. On the other hand, the export tax is of little avail, as there is a competition among growers to sell in foreign markets.

As regards *internal* difficulties, the Jute Mills of Bengal have suffered a great deal from labour unrest as also from lack of concerted action between Association and Non-association Mills.

Dr. Barker's recommendations.

Recently, the Indian Jute Mills Association invited Dr. S. G. Barker from the United Kingdom, for examining the scientific and technical development of the Jute industries. Dr. Barker's report is full of valuable suggestions to some of which we presently refer.

Dr. Barker mentions that competitive materials have adopted scientific methods of cultivation, extraction and control in manufacture. Jute must also be able to do this by the establishment of an organisation to study ways and means of conferring upon either fibre or fabric characteristics which they do not possess in the ordinary natural condition. Jute calls not only for mechanical science but also for the exercise of physics, Chemistry, Mechanics, Bacteriology and micro-biology. for conducting research work. Dr. Barker suggests the establishment of a central laboratory in or near Calcutta. Extra-mural work may also be carried on, in certain aspects of fundamental issues of a specialised nature and for certain technical issues. He concludes that having regard to the four requirements of modern life-food, housing, clothing and transport-Jute can play a prominent part in the future in all of them and to a large extent in India. Dr. Barker also emphasises the necessity for proper marketing organisation both in India and abroad. For that purpose there should be an organization for the collection of statistics, general information and economics as well as the appointment of representatives in foreign countries.

The Indian Jute Mills Association is trying to give effect to some of these recommendations.

III. THE COTTON MILL INDUSTRY

History of the Industry

The first Cotton Mill in India was started at Calcutta in 1818. The first Mill in Bombay was started in 1854, and since then Bombay became the home of the Cotton Mill Industry in India. The early localisation of the Industry in Bombay was due not so much to natural causes but to some accidental factors like cheap credit, and facilities of transport and trade with China. From 1877 fresh Mills began to be started at Nagpur, Ahmedabad, and Sholapur which are situated in the very heart of the cotton producing areas. Since then Cotton Mills came to be established in different parts of India, though Bombay and Ahmedabad still continue to be the main centres of the Indian Cotton Mill Industry.

There was a large export trade in cotton yarn till 1904 and 1905, the Chinese market being responsible for 90% of the total Indian export. After 1905, however, the export trade rapidly declined partly on account of exchange difficulties following the closure of the Indian Mint to the free coinage of silver, partly due to the rise of the spinning Industry in China itself and also partly due to shipping difficulties. The growth of the weaving Industry in India also restricted the available supply of cotton yarn for export. Since the war Japan has not only driven India out of the Chinese market but has also proved to be a very serious rival of the Indian spinning Industry in India itself.

Before the war the Indian Cotton Industry had also to experience great hostilities from Lancashire. As early as 1877 the Secretary of State for India due to pressure from Lancashire wanted to abolish the revenue duties on the imports of cotton piece-goods into India. The duties were abolished a few years

later by Lord Lytton ostensibly on free-trade ground but really to placate Lancashire. Towards the close of the 19th century when Revenue considerations demanded the fresh imposition of cotton Import duties, the Government just to please Lancashire also imposed a countervailing cotton excise duty. The deliberate subordination of Indian interests to those of Lancashire has been one of the major grievances on which Indian political discontent has been nourished and the close alliance since formed between the Cotton Mill-owners and the leading political party in India has played a large part in the subsequent growth of the Indian Cotton Mill Industry.

The war and the post-war boom meant much prosperity for the Cotton Mill Industry, when Capital investments were practically doubled, and dividends amounting sometimes to 40% of the paid-up capital were paid. The boom however, was short-lived and when the inevitable crash came, the Cotton Mills were faced with a great crisis.

The difficulties of the Industry.

The difficulties of the Cotton Mill Industry were partly *internal* and partly *external.*

As regards *internal* causes, we might mention the following :

(1) *First,* the unwise and short-sighted policy of declaring high dividends in the boom period rather than building up a large-reserve fund.

(2) *Secondly,* there was large over-capitalisation or stock-watering in order to conceal excessive dividends.

(3) *Thirdly,* there was hardly any combination or amalgamation for eliminating wasteful competition or inefficient production.

(4) *Fourthly,* Bombay Mill-owners did very little to

prevent labour unrest or to rationalise the Cotton Mill Industry.

(5) *Fifthly*, no systematic attempt has been made by way of marketing research.

(6) *Lastly*, the Cotton Mill Industry suffered from all the weakness of the managing Agency system.

As regards *external* causes, the greatest prominence must be given to competition from Japan and Lancashire. As Lancashire specialises in the production of superior varieties of Cotton piece-goods, the real competition lies with Japan.

Protection to the Cotton Mill Industry.

The first triumph of the Cotton Mill Industry was registered when the Cotton excise duty was abolished in 1925. The Government then, in accordance with its principle of discriminating protection, set up a Tariff Board to examine the case for protection to the Cotton Mill Industry. The Tariff report was presented in 1927. The members agreed that the main external cause of the depression was the severe competition of Japan in the yarn trade as well as in certain types of coarse and medium grey goods and that there was an element of unfairness owing to the adoption by Japan of the' double-shift system rendered possible by her non-fulfilment of the Washington Labour Convention both in regard to limitation of hours as well as the employment of women and children at night. Though all the members agreed in diagnosis. they differed in prescriptions. The Indian members favoured a 4% duty on all imports of Cotton piece goods. Regarding yarn they recommended a bounty of 1 anna per pound on yarn of 32·5 and higher counts as protection would hamper the hand-loom industry. The President, however, wanted a protection of 4% on yarn and manufacture against Japan.

The Cotton Textile (Protection) Act of 1927.

After some difficulties the Cotton textile Protection Bill was passed in 1927. It provided that up to 31st March 1930 the duty on Cotton twist and Cotton yarn, irrespective of the country of origin, should be one and half annas per pound or 5% ad valorem whichever was higher. The existing import duty on artificial silk yarn was reduced from 15 to 7½% in order to give some relief to the hand-loom industry. Lastly, the list of mill-stores to be exempted from duty was extended in September, 1927.

As the depression in the Cotton Mill industry was not appreciably abated, the Government appointed Mr. G. Hardy to examine afresh the conditions of the Cotton industry. Mr. Hardy's report confirmed the general allegation against Japanese competition in medium grades of grey and coloured goods; it was also revealed that the united Kingdom had lost heavily both in grey and coloured goods of medium counts to Japan and India. In bleached goods and in finer grades of grey and coloured goods, the British trade was non-competitive.

The Protection Act of 1930.

As the result of these investigations the Cotton Textile Industry Protection Act was passed in 1930 as a measure of protection against Japan. It provided a general ad valorem duty of 15%. In addition, it imposed a minimum duty of 3½ annas per lb on plain grey goods. Lastly, specially protective duty of 5% was imposed on non-British goods. The last item created a great public agitation in the country in as much as it involved the virtual introduction of an Imperial preference by the back door.

In 1931 additional protection was granted to the Indian Cotton Mill Industry which brought the import duty to 25% ad valorem or 4⅜ annas per lb which-ever was higher in the

case of plain grey goods of British manufacture, and 31¼% on non-British goods (plain grey).

In the case of other goods the duty was 25% on British and 31¼% on non-British goods. The duty on imports of artificial silk piece-goods was increased to 40%.

The menace of Japanese dumping.

As the protection imposed by the Act of 1930 was to expire on 31st March 1933, the Government appointed a fresh Tariff Board in 1932. The depreciation in the value of the Japanese yen was responsible for a tremendous increase in the imports of Japanese cotton piece-goods. Accordingly, the Government raised the import duty on non-British cotton goods to 50% advalorem with a minimum specific duty of 5¼ annas per lb in the case of plain grey goods with effect from 30th August 1932. These rates were further increased to 75% advalorem and 6¾ annas per lb respectively with effect from 7th June 1933 as an anti-dumping measure. In 1934 the Indian Tariff (textile protection) Amendment Act was passed implementing the recommendation of the Tariff Board, modified in the light of the New Indo-Japanese trade Agreement and the Mody-lees Pact. The Act imposed on plain grey cotton piece-goods 50% advalorem import duties subject to a minimum of 5¼ annas per lb. The Act will last up to 31st March 1939.

It should be remembered in this connection that Japan's extra-ordinary position in the Cotton Textile Industry can not all be attributed to depreciation and low wages of labourers. Much has been talked of Japan's non-fulfilment of certain international labour conventions. But conditions in Japan are not exactly what they have been reported to be. If the money wages of female labourers are comparatively low, their

real wages are quite good. As Mr. Orchard has pointed out in his recent treatise on the Economic Position of Japan, Japanese female workers have been provided with comfortable dormitories, free schooling for their children and other amenities. The real explanation must be traced in the very high degree of rationalisation, brought about, partly by combinations, both vertical and horizontal, and partly by the use of the most up-to-date machineries and devices, in the Japanese Cotton Mill Industry. Japan plays in the 20th Century the role which Lancashire played in the 19th.

IV. THE INDIAN SUGAR INDUSTRY

History of the Industy.

The Sugar Mill Industry of India is of recent growth and is mainly confined to the United Provinces and Bihar, which might be regarded as the Sugar belt of India. The Industry was granted protection in 1932 at the rate of Rs. 7-4 per cwt. in addition to a revenue duty of 25%. Thanks to the protection, the number of sugar factories increased very fast, from 27 in 1929-30 to 44 in 1931-32, 72 in 1932-33, and 136 in 1933-34. Partly to check an unhealthy expansion of the industry, and partly to compensate for the loss of customs revenue consequent on the policy of protection, the Government imposed an excise duty of Rs. 1-5 per cwt. on all factory-produced sugar in 1934-35 The excise duty is levied on all sugars containing 90% or over of sucrose and manufactured in factories using power and employing not less than 20 men.

Production of sugar in India may be classified under three heads : (a) by modern factories working with cane ; (b) by modern refineries working with Gur ; and (c) by indigenous

pan concerns which may be collectively called *Khandasaris*. Of these three methods of sugar manufacture, it is only the first one that may properly be called the white sugar industry of India, and it constitutes the most important section of the industry, both numerically as well as in respect of the quantity of sugar produced. The gur refining industry as well as the Khandsari industry are well known to be extremely inefficient and wasteful. A reduction in their production should benefit the cane-factories not only by providing a larger market for their production, but also by raising the price-level for their second-grade sugars.

Main Problems before the Industry.

The difficulties of the Indian sugar iudustry are both *internal* and *external*. As regards *internal* difficulties, the most important factors are the *low yield* of sugar-cane per acre in India, and the *inferior quality* of our canes. Whereas the yield per acre is 48 tons in Java, and 54 tons in Hawaii, the corresponding figure for India is 16 tons only. Again, for a given weight of canes crushed, the quantity of sugar extracted by the average Java factory is more than 30% greater than that obtained by the average Indian factory and this alone accounts for an increase of cost by 30%. Both these defects are due to climatic factors. Unless a better breed of sugar-cane is made available for India by the researches carried on by the Imperial cane-breeding station at Coimbatore, the Indian sugar industry will never be able to withstand foreign competition. Another problem is that of assuring a regular and adequate supply of canes to enable the sugar mills to work to their full capacity. Dr. H. L. Dey suggests two alternative solutions of this problem: first, the delimitation of the cane zone for each factory under a system of licensing as in Java; and secondly,

the introduction of a system of leasing the cane areas to the sugar factories for the cane season.

Lastly, since modern sugar manufacture is a highly technical affair, India can not afford to remain behind hand as regards the engineering and the chemical aspects of the manufacture. In solving this problem, we can derive many valuable suggestions from the brilliant examples of Java and Hawaii.

As regards *external* difficulties, they relate primarily to the acute competition from Java, Cuba, and Hawaii and mainly from the first-named country. These countries are naturally adapted for producing the best kind of white sugar at the lowest cost. It is to be remembered that the efforts of many countries like the U. S. A., Australia and S. Africa to develop the sugar industry by means of protection have ultimately failed on account of natural disadvantages.

Arguments for and against Protection.

The case for protection to the Indian sugar industry has been made out on the following grounds :

(1) It will maintain, if not extend, the area under sugar-cane in India.

(2) It will improve the economic position of the ryot by creating a large home market for his cane and by raising its price.

(3) It will give industrial employment to the ryot in the slack season, as the sugar factory will be situated in the cane area.

(4) The tops and leaves of sugar-cane are good for fodder.

(5) And lastly, the Government's land-revenue will increase with the increased productivity of the soil.

Dr. H. L. Dey has criticized this protectionist policy mainly on the following grounds :

(1) Sugar is just one of the many staples in India like cotton, jute etc. though somewhat more lucrative. There is no reason why it should be selected for a special treatment.

(2) Sugar is not the only crop capable of intensive cultivation, nor does its cultivation confer any special quality or other facility on the soil.

(3) Maintenance of a high price for sugar by artificial stimulation is not the best method for alleviating the ryot's distress.

(4) Protection is not the best way of benefitting either the primary producer or the manufacturer.

Conclusion.

Whatever might be the elements of truth in the above contentions of Dr. Dey, it is abundantly clear to us that the policy of protection is highly justified both on agricultural and industrial grounds. India consumes large quantities of sugar, and there is no reason why India should import from abroad what she can easily produce at home, though, it might be for some time, at a greater cost. The mere fact that the ryot stands to benefit much from the protection granted reduces the free trader's objection almost to nullity. Of course, when we justify protection, we do not want to gloss over the defects of the present organisation of the Industry. Both the Government and the industrialists must seriously tackle the urgent problems of research and modernisation to which we have already alluded. Besides, the pressing problem before the industry during the next few years will be that of stimulating consumption at home and of finding out foreign markets. Preparation of sugar standards, which may be recognised by

buyers and sellers alike as the basis for their contracts will facilitate business in distant markets particularly in the case of forward contracts. *Lastly*, there is a room for a uniform and generally acceptable sugar sales contract form, which may be fair to the merchants as well as to the factories. India requires a foreign outlet for her sugar to the extent of 100,000 tons. If, therefore, in the last International sugar conference, the British Government has agreed on behalf of India that she will prohibit her sea-borne exports of sugar except to Burma, as the report goes, it will greatly harm the Indian sugar industry. It is the duty of the Government of India to help the sugar Industry by finding out fresh foreign markets and not by closing old ones.

V. THE INDIAN CHEMICAL INDUSTRY

The chemical Industry in India is more or less in a state of infancy, though there is no reason why she should continue to do so. The essentials of a chemical industry are maily three-fold :

First, the existence of certain fundamental heavy chemicals like sulphuric and hydrochloric acids, lime, caustic soda, sodium carbonate, nitric acid etc. at cheap rates, *secondly*, the availability of cheap fuel, and *thirdly*, the existence of chemical plants.

Indian resources of raw materials are not at all deficient, provided her mineral ores are properly exploited. Uptil now, India has devoted her energies to the production of only a few heavy chemicals such as sulphuric, nitric, and hydrochloric acids. In producing sulphuric acids, India has to meet very intense competition from Germany and the United

Kingdom. India does not as yet produce sufficient quantities of nitric acid.

As regards fuel, Bengal has great advantage from local coal supply, while Madras and Bombay must procure the necessary fuel requirements from hydro-electricity. And finally, as regards plant, though India manufactures the ordinary kind of plant, the highly specialised plants have yet to be imported from abroad.

In 1928 the Tariff Board considered the case for protection to the Indian Chemical Industry. The Board recommended protection chiefly on the grounds that it was a key industry and a military industry. Accordingly, the Heavy Chemical Industry (Protection) Act was passed in 1931 which gave protection to various heavy chemicals at different rates.

VI. THE TANNING INDUSTRY

India being an agricultural country, her resources of cow-hides, goat-skins and sheep-skins are enormous. Before the war, India used to export large quantities of raw hides and skins to Europe, specially to Germany and Austria, and to the U. S. A. Of course, for a very long time there has been an indigenous tanning industry which has met the local demand for inferior qualities of leather. The first step towards the modernisation of tanning methods was taken by the military authorities in India for manufacturing superior leather necessary for harness and other military needs. In 1860 the Government Harness and Saddlery factory was set up. Soon afterwards, the Army Boot and Equipment factory was established by Messrs Allen and Cooper, and it received much financial help from the Government. Another factory, known

as the Western India Army and Equipment factory, was also established at Sion in Bombay under Parsee enterprise.

The Great war imparted a great stimulus to the tanning industry, there being a great increase in the production of rough-tanned raw-hides known as the East India tanned kips which were greatly in demand by the Government. The Munitions Board, by a system of Priority certificate, began to purchase certain classes of leather goods from India which it formerly imported from abroad. The production of boots and shoes was twenty times greater at the end of the war than the pre-war output.

Export duty on raw hides and skins.

In 1919 an export duty of 15% on hides and skins was imposed partly for revenue considerations and partly as a measure of protection to the Indian tanning industry, the importance of which was realised during the war. There was a rebate of 10% on hides and skins exported to other parts of the British Empire for manufacturing purposes, in order to divert the tanning industry from Germany to the Empire. Both the objectives, however, remained unfulfilled, and both the Fiscal Commission and the Taxation Inquiry Committee recommended the early abolition of the duty, though the latter favoured the retention of the duty on raw skins. Meanwhile, the Government had already reduced the duty to 5% and had abolished the rebate. In 1927 the Government proposed the abolition of the 5% duty on raw hides, but the Assembly rejected the proposal. In 1929 the Government appointed the Hides Cess Inquiry Committee which recommended the imposition of a cess of 1% advalorem on the exportation of raw hides and skins. But apparently the proposal did not materialise. Later on, the Government

abolished the export duty on hides in 1934 and that on skins in 1935. The Indian tanning Industry deserves protection as it fulfils almost all the requirements laid down by the Fiscal Commission.

VII. THE COAL MINING INDUSTRY

History of the Industry.

We have already seen that most of Indian's coal resources are located in the Gondwana coal-fields, and that the outlying parts of the country, specially in the Peninsula, suffer much on account of the scarcity of coal, though in Bombay the deficiency is partly made good by the development of Hydro-electricity.

Before the war, Indian coal was exported to certain eastern markets, namely, Colombo, the Malaya Peninsula and the East Indies. The war and the Post-war periods witnessed a great expansion of the coal Industry. The embargo on the export of Indian coal which was in force between 1920 and 1923, however, was responsible for the loss of certain foreign markets which were easily captured by South African coal, though, of late, the hold of S. African coal on these markets is on the decline.

Thanks to the high freight charge on Bengal coal, S. African coal has been imported into India, specially in Bombay giving rise to great political discontent in India. The public demand for a counter-vailing duty on S. African coal led the Government to appoint the first Indian Coal Committee for a scientific examination of the whole problem. The Committee recommended the establishment of a coal grading Board for certifying the quality of the coal exported.

It also recommended the grant of a rebate of 37½ per cent in railway charges and of a reduction of 4 *as* per ton on river dues. All these recommendations have been accepted by the authorities concerned.

The Coal Industry's crisis.

The last economic depression has hard hit the Indian coal-mining industry which, unlike other industries, is still lying in a perilous condition. The main difficulty of the industry is the prevalence of low prices consequent on over-production of Indian coal. The Association of European Colliery owners submitted a memorandum to the Government of India praying for a coal restriction scheme on the lines of the Jute restriction scheme. The Government, however, ultimately turned down the request on the plea that the industry as a whole was not represented in the memorandum, that coal, unlike jute or tea, was an essential of life ; that it was a raw material of other industries which would be adversely affected by any undue rise in the price of coal ; and that the Association had not placed sufficient data on which the Government could base any definite policy.

Recommendation of the coal mining Committee.

A series of mining accidents involving a heavy loss of men and money forced the Government to appoint the Coal Mining Committee under the chairmanship of Mr. L. B. Burrows. In its Report the Committee has reached some valuable conclusions and has made some very far-reaching recommendations. The Committee makes the preliminary observation that there is a considerable scope for rationalising not only the various elements of the coal trade and industry, but also the activities of landlords, mine-owners, Railways and

the iron and steel and other industries." Again, "the coal trade in India has been rather like a race in which profit has always come in first, with safety a poor second, sound methods an 'also ran,' and national welfare a 'dead horse', entered perhaps but never likely to start."

The report states that India has only enough reserves of all good quality coal to last 129 years, while the reserves of coking coal are only adequate for 62 years. As regards reserves of coal of inferior quality, they are practically unlimited. The Committee strongly emphasises the importance of conserving the coal assets of the country, particularly in the higher grades and in its opinion stand-stowing is the best method of conservation which accordingly should be enforced in the interest of the community as a whole.

**The Committee also emphasises the serious character of the situation created by the dependence of the industry on de-pillaring for securing coal supplies. Where mining methods have been sound and these pillars are of adequate size, the subsequent extraction of the pillars known as de-pillaring involves normal collapses of the roof. There is no danger in such collapses. On the other hand, premature collapses may have devastating results. In the opinion of the Committee, there can be no doubt that the danger of premature collapse actually exists in most of the mines in which coal is standing in pillars. The Committee propose that the Statutory Authority should be entrusted with the removal of these pillars. Sand stowing under their direction will enable all these pillars to be extracted with safety, and vast amounts of coal will be saved. It is recommended that sand-stowing should eventually be applied to all thick seams and such stowing should be assisted by the Statutory Authority.

The Committee also condemns the present grading system

which involves both waste of coal and danger from fire; and recommends that the grading of sections of seams should be cancelled, and that only seams as a whole should be graded. As regards sources of sand, the Committee is of opinion that the supplies of sand in the Damodar, Barakar and Adjai rivers are more than sufficient for all requirements and that transport of sand by aerial rope-way is the most suitable system for collieries lying at a distance from the rivers.

As regards the Statutory Authority, the Committee professes that it should be an expert body with an independent chairman, the chief Inspector of Mines, one commercial expert, and three mining experts as members.

The Committee recommends an amendment of the Mines Act and of the Coal Mining Regulations. It also recommends that the Statutory Authority should afterwards set up a Central Marketing Agency and should also have power to arrange for the amalgamation of small and uneconomic or badly shaped collieries.

As regards inferior coal, it is suggested that Railways might increase their consumption of it. Regarding research, it is recommended that a Coal Research Board should be set up under the statutory Authority, half of the initial capital expenditure to be met by the Government of India and the other half out of the cess fund.

Finally, it is proposed that a cess of eight annas per ton on coal (including soft coke), and 12 annas a ton on hard coke should be imposed, to be administered by the Statutory Authority, to be used mainly to defray the cost of stowing mines with sand when coal is excavated in order to protect life and coal.

The Committee rejects the proposal of rationalising either the mines or the royalties both on financial and technical grounds.

Criticisms of the Report.

The Report of the Coal Committee has been greeted with severe and almost sarcastic criticisms by the Indian Mining Association. The Association, which has been charged with non-co-operation by the Coal Committee, begins its statement with the retort that its co operation was never seriously solicited and goes on pointing out the errors of omission and commission perpetrated by the committee. The Association observes "that the members of the committee have not apparently read the Tariff Board's Report (1926) on the coal Industry and are not aware of the fact that the additional rebate of eight annas per ton granted from Oct. 1, 1936 applies only to coal shipped to foreign countries; that the commercial aspect of coal conservation and its probable repercussions upon Indian Industry as a whole have been almost completely overlooked; that the committee have given little consideration to the severe competition which Indian coal experiences both from hydro-electricity, oil, woodfuel and cow-dung cakes at home, and from imported coal from abroad; that the committee have displayed an almost amazing ignorance of general commercial structure; that the personnel of the so-called "expert" committee was far from being expert, consisting, as it did, mostly of Government officials who suffered from their own *idee fixe* and looked very much like a troop of boys raiding an orchard, knocking down the apples easiest to get at but carefully ignoring those presenting any difficulty."

VII. The Paper-making Industry.

The manufacture of machine-made paper in India dates from 1870. The Bally paper mills were the first of their kind to be established in India. Since then the Titaghar Paper Mills,

the Naihati Mill, the Upper India Couper Mill, the Deccan Paper Mill Co., the Carnatic Paper Mills, the Punjab Paper Mills Co., and some other Paper Mills have been started. In 1934-35 the total Indian output of paper amounted to 892,000 cwt.

Indian paper mills do not produce paper of very fine qualities, as there is no cosiderable domestic demand for them. In India paper is made out of *Sabai* grass, though inferior qualities of paper are also made out of rags, hemp, jute waste *etc.* With the exception of the Indian Paper Pulp Company, no paper mill in India has so far utilised bamboo pulp.

The difficulties that the Indian paper mill industry experiences are the high cost of chemicals, heavy freight-rates for coal-transportation and acute foreign competition. In 1924 the Tariff Board was asked to examine the case for protection to the Paper Industry. The Board recommended a protective duty of 1 anna per lb. on certain kinds of paper as also a loan or guarantee of Rs. 10 lakhs to the Naihati Paper Mills which utilised bamboo paper-pulp.

Protection has actually been granted to the paper pulp Industry since 1925 and it is to terminate in March 1939. The loan proposal, however, has not been carried into effect on account of the financial stringency of the Government. Moreover, since 1932, a new protective duty of Rs. 45 per ton has been imposed on imported wood pulp in order to stimulate the development of paper-pulp.

VIII. The Glass manufacturing Industry.

Experiments in glass manufacture in India are a long story of failures for which natural causes must take the major responsibility. Before the war, the indigenous bangle-making industry,

which is mainly localized in the Firozabad district of the U.P. and the Belgaum district, was in a flourishing condition. Since the war, however acute Japanese competition has hit very hard even this indigenous industry. As regards the factory Industry, it has always suffered very much from lack of soda ash and of trained men who have been mostly imported from Japan.

India imports large quantities of glass from Japan, Germany, the United Kingdom, Belgium and Czechoslovakia. In 1930, these imports were valued at Rs. 252 lakhs. The Indian Tariff Board to which was referred the claim of the glass industry to protection in 1931 recommended protection for ten years for certain classes of glass. The Government, however, did not accept the recommendation on the ground that India did not possess sufficient natural advantages for the development of the industry. They, however, decided to give some relief by means of rebate of duty on imported soda ash, which is to be complete in the case of British or colonial import, and partial in the case of foreign import. As the result of the unsympathetic attitude of the Government, however, the Indian Glass Industry is in a very perilous position. Moreover, the depreciation of the Japanese yen has resulted in the flooding of the Indian market with very cheap Japanese manufactures against which Indian glass, whether indigenous or manufactured can hardly hold its own. It is a pity that the Government, in its recent negotiation of an Indo-Japanese Trade Agreement, did not lift a finger to save the Indian glass industry from this latest menace.

IX. Cottage Industries in India.

In dealing with the economic transition in India, we have already noticed the various factors that led to the gradual

decline of the once-flourishing Cottage Industries in India. Here we do not propose to dwell upon the causes of their decline but just to narrate their present position and to suggest possible remedial action.

The fate of cottage industries in these days of cheap factory products might at first appear to be doomed. The dream of reviving cottage products in the teeth of acute competition from factory products might appear to be an idle dream. Nevertheless, there is no gainsaying the fact that many cottage products are holding their own side by side with manufactured goods in almost all the highly advanced countries of the world. The causes of the persistence of small-scale production in these days of large-scale production are not far to seek. *First*, the development of electricity renders it possible even for the small producers to gain most of the external and internal economies. *Secondly*, in almost all societies there is a demand for luxury goods which are not capable of standardised mechanical production. So long as there is a demand for variety and individuality of commodities, the small man will find a market for his products.

Influence of mechanical production on cottage industries.

In India the competition of machine-made goods has produced three distinct types of reaction on the indigenous cottage industries. First, there are some industries which have been virtually killed by competition with machine-made commodities. Secondly, there are others which are lying in a moribund condition which deserves extinction but at the same time they are saved from destruction by the assistance rendered to them by money-lenders etc. and thirdly, there are some industries

which have not been much affected by modern industrialism. As regards the first, it is perfectly futile to attempt its revival. As regards the second, the sooner it is extinguished the better for all concerned. It is the third type that merits our consideration.

In these industries the artisans have adapted themselves to modern methods and thereby they have increased their productivity. "The weaver has taken to mill yarn, the dyer to synthetic dyes, the brass and coppersmith to sheet metal, the black smith to iron rolled in convenient sections, in each case with advantage to himself from the lessened cost of production, which has greatly extended his market." For these cottage industries there is definitely a future, at least as long as there will be a demand for variety and so long as the villages of India will remain more or less isolated.

Cottage Industries are still responsible for the employment of a large number of the population. In every village there are some people who are engaged in different types of cottage industry. We now proceed to examine briefly the state of some of the important cottage industries of India.

(a) The Cotton hand-loom industry.

Nearly 6 millions of people are engaged in this industry and their annual gross earnings, according to the Industrial Commission, amount to nearly Rs. 50 crores. No doubt, the hand-loom weaving industry has suffered much from machine-competition. Nevertheless, it continues to exist because it alone can satisfy the rich who want the finest fabrics, and also satisfies the poor as they believe rightly or wrongly that the hand-loom cloth is more enduring than the mill cloth. Hand-loom supplies about 25% of the total demand for cloth in India :

The hand loom-weaver is much happier than the factory

hand in as much as he works in his own home and thus can work for longer hours with perfect ease. He also gets the unpaid assistance of the members of his family. Of course, his profits are small and in some cases non-existent but they are capable of much increase. The necessary remedial measures shall be discussed at the end of this chapter.

(b) The Woollen Industry.

The woollen industry was a very flourishing cottage industry in India in the Moghul days. It took three shapes, namely the weaving of carpet, of shawls, and of ordinary rough blanket. The raw materials for this industry are available in most parts of India as the sheep is a ubiquitous animal although both the quality and the quantity of the wool per sheep is much better in the hilly districts than in the plains. The wool of Kashmir and of Tibet is very famous.

In the Moghul days, India acquired great proficiency in the weaving of carpets largely on account of the valuable patronage offered by the Royal Court. After the disintegration of the Moghul Empire, Indian carpet-weavers managed to exist for some time on account of foreign demand. But the quality deteriorated, as Indian weavers had to adapt themselves to foreign trade which was not of a high order. The exigencies of foreign trade also brought into existence a class of middlemen who intercepted a large part of the profits of the producers. The use of aniline dyes brought about a further decline in the quality. And last of all, the guild organisation of the carpet-weavers was gradually dissolved with the result that the once independent weavers now fell into the clutches of middlemen money-lenders who sucked them quite dry. In this way, the carpet-weaving industry fell upon evil days and its present position is highly deplorable.

We next take up the case of shawls. We have already noticed how some of the Indian shawls such as those of Kashmir had attained world-wide celibrity. Even in the early days of the British rule, the story of the shawl industry, like that of carpet, is also one of gradual decline. Here, too, the peak of prosperity was reached in the palmy days of the Moghul Empire. With the disappearance of the Native Imperial court, foreigners maintained the demand for some time. But later on, especially after the Franco-Prussian war, shawls went out of fashion in Europe, and complete havoc was wrought upon the shawl-weavers of India. The last stroke was dealt by the starting of shawl manufacture at Paisley in England.

Finally, we come to blanket-weaving. This branch of the woollen industry is still in a going state on account of the cheapness and utility of rough blankets and also because of the inability of any factory to turn out any blanket. The poorer classes, in particular, use blankets for various purposes and as such there is clearly a great demand for them in this country. The possibilities of expansion of this industry should be fully explored both for giving whole-time employment to some, and part-time employment to many.

(c) The silk Industry.

The Indian silk industry, like the woollen industry, was once in a very flourishing condition. In the 17th century, the East India Company carried on a very lucrative trade with England in Indian silk manufactures. Later on, largely owing to opposition from Home, the Company began to export raw silk from India. With the development of the silk industry in Europe, however, India began to export cocoons as the Indian

reeling is very bad. On the other hand, India began to import both silk yarn and silk piece goods from Europe, chiefly, Italy and from Japan.

The main requirements of the silk industry are mulberry trees and abundant cheap labour. Both the requirements are fulfilled in Bengal, Kashmir and Mysore. The main reason why Indian weavers can not hold their own against foreign competition appears to be their great poverty and ignorance of modern up-to-date methods. It is plainly the duty of the Government to remove both these impediments. In this connection, we must admit that the Government of Bengal has started two seri-cultural schools for imparting training in sericulture. The passed students are also helped both with a stipend of Rs 250 and seed stocks from the Government's nurseries for establishing rearing-houses. This system known as the Selected Rearers System is likely to have beneficial results. The Governments of Kashmir and Mysore are also taking steps to encourage the silk industry. In 1935 the Government of India established the Imperial Seri-cultural Committee which has sanctioned a grant of Rs. 93,000 to the silk-growing provinces for the encouragement of sericulture. Lastly, we must mention that the Indian Tariff (textile Protection) Act of 1934 has imposed various protective duties on imports of silk yarn and silk manufactures. Imports of artificial silk yarn which compete with genuine silk, have also been penalised by a duty of 25% *advalorem* with a minimum specific duty of 3 annas per lb.

It is to be hoped that well-to-do Indians will extend their patronage to Indian silk manufactures somewhat more liberally in the future than they have done in the past, although the indigenous product may not be as fine as the foreign.

(d) Methods of helping the cottage Industries.

From our previous survey of the history and present condition of some of the important cottage industries of India it is quite clear that they are in a languishing condition. The lot of most artisans in Bengal specially is extremely tragic. Some of them can hardly make both ends meet though they might toil incessantly from morning till night. The iron grip of the Mahajan is everywhere, and the worker apparently works himself to death for the benefit of the middleman and the money-lender. The problem of helping the artisan, therefore, is one of urgent practical importance, if our country-side is not to be disfigured by hideous pictures of unmerited sufferings and privations.

The short-comings of our cottage workers are mainly three-fold : first, *lack of up-to-date methods and implements* ; secondly, *lack of finance* ; and thirdly, *lack of proper marketing organizations*. If cottage industries are to be revived, wherever revival is possible, we have to remove these three distinct types of handicaps.

The illiterate and highly conservative artisan has got to be brought out of his antiquated tools and methods into their modern counterparts. This stupendous task can best be discharged by the Government. In this connection we note with satisfaction the activities of the Governments of Bihar and Orissa, and of the Central Provinces who conducted regular campaigns in the country-side for familiarising artisans with some up-to-date tools and methods. It is to be hoped that all the Provincial Governments of India will follow these good examples with re-inforced vigour. In this connection we might also refer to the recent example of the Imperial Government who have made two grants of Rs. 5, 50,000 and Rs. 93,000 for

promoting research in the Hand-loom Industry and sericulture respectively. As regards *finance*, the solution is not a very easy one. The Industrial Commission recommended loans by the Director of Industries to the artisans or the placing of improved tools in their hands on the hire-purchase system with the ultimate objective of transferring ownership to them. Co-operation might also be a great solvent of the problem, only if the co-operative mind could be brought into existence. Whatever be the ultimate solution, the urgency of the problem can not be too strongly emphasized.

Finally, we come to the *marketing problem*. As in agriculture, so also in our cottage industries, the middleman is the blackest villain of the piece. He intercepts most of the profits of production and thus fattens at the expense of the worker. We must eliminate him, or he will eliminate all prospects of peace and prosperity in rural India. The marketing problem, however, involves not only the elimination of the middleman, but something more positive. We have to find out new markets for our cottage products by starting Exhibitions and Emporiums wherever it might be profitable. The sympathy of the urban population must be enlisted in the cause of our rural resuscitation. The various Governments, too, like the Government of the United Provinces should make their store purchase from cottage products wherever possible. The Swadeshi spirit must be kept alive not for purposes of theatrical display but in our everyday conduct of life. It is then and then alone that our cottage industries can once more play their rightful part in the national economy of India.

CHAPTER XV

INDUSTRIAL LABOUR

1. The Rise of the labour problem in India.

Although the industrialisation of India began long before the Great War, it was not till the war was over, that signs of labour unrest began to manifest themselves. The awakening of the masses which followed in the wake of the Great war greatly affected the outlook of the growing industrial population of India. The labourers became more and more organized into trade unions and began to insist upon their rights and previleges. Above all, communistic ideas came to be insidiously disseminated among the factory workers, and this in itself has been largely responsible for the growing bitterness and hostility between the employer and the employees.

The present position of the movement.

The Indian labour movement is now in a definitely aggressive mood. Strikes have become almost the order of the day, though not all strikes are inspired by genuine labour grievances. The greatest handicap of the movement is the fact that labourers have hardly produced any genuine leader from their own ranks. They are thus helplessly dependent upon leaders from the intellectual middleclass who are generally lawyers. These men, even when they are inspired by genuine sympathies with the labourers, cannot always correctly understand the real grievances of the labourers. Hence the labourer's point of view is hardly adequately represented in any industrial dispute or in any legislative proposal for the amelioration of

the labourers' condition. Besides, many of these labour leaders are confirmed Communists who do not hesitate to exploit the grievances of the illiterate labourers for furthering their own political purposes. Whatever be the defects of the Indian labour movement, there can be no doubt that labour problems have become very acute in India recently. The orthodox labour organisation in India has become linked with the international labour movement and India sends her labour representatives to the International Labour Conference which is held at Geneva every year. The Government, too, recognised the importance of the labour problems by appointing the Royal Commission on Indian Labour in 1929 and by implementing some of its recommendations in recent years.

II. The total factory population in India.

1. In 1879-80, the number of Cotton Mill operatives in India was 47,855, while in 1889 that of jute workers was 59,222. According to the Labour Commission Report (1931) the 203 cotton mills of the Bombay Presidency employed in all about 232,000 persons, while the remaining 92 mills scattered in the rest of India accounted for 106000 operatives. In 1929 the 95 Jute mills of India, most of them situated near about Calcutta, employed in all 347,000 operatives. Railway workshops, which number 145, accounted for 136,000 persons, while the Tata's works at Jamshedpur employed 28,000 persons. The printing industry employed 38,000 persons in 360 presses. In all, according to the Labour Commission, the number of perennial factory workers was approximately 1,250,000. In 1934, the total number of factories in India was 8,658 and the average daily number of persons employed was 1,487, 231. If, in addition, we remember that, according to the Memorandum submitted by the India office to the League of Nations in 1922,

India's landless agricultural labourers numbered 27,810,130; workers in factories, mines, transport and cottage industries number 20, 219,000 ; and maritime workers numbered 141,000, it is quite clear that India has the largest number of labourers compared to any other single country in the world. The two biggest centres of the factory population are the Hooghly area with a population well over 450,000 and the Bombay city and Island with about 190,000 operatives. With the exception of Ahmedabad which has a little over 70,000 operatives, there is no centre with as many as 30,000 permanent factory workers. Of the secondary centres with a definite concentration of industries, the more important are Madras, Cawnpore and Jamshedpur.

III. Sources of labour supply.

The smaller industrial centres everywhere recruit from the surrounding rural areas all the workers they require except labourers demanding special skill. With the expansion of an industry, the area of recruitment has got to be enlarged. If the centre is situated in a region where the population is very dense and at the same time the pressure of the people on land is also very acute, most of the labourers are locally available. Ahmedabad and Cawnpore are the cases in point, the former recruiting 65% of its total labour force from the surrounding areas.

On the other hand, Bombay, Calcutta, and Jamshedpur recruit most of their labourers from a distance. Bombay recruits its factory labour from *two* main sources—by sea from Ratnagiri and by land from the Deccan districts especially Ahmednagar, Poona and Sholapur, and of late from the United Provinces as well. The *Hooghly area*, though surrounded by the densely populated districts of Bengal, however, has found

it necessary to draw its factory labour from Bihar and Orissa, Northern Madras, and the eastern districts of the Central Provinces and of the United Provinces. This is mainly due to the fact that the Bengalis are averse to factory labour except in the skilled grades.

Finally, as regards *Jamshedpur* which was established in the midst of a virgin forest, the necessary labour supply had to come from Bengal, Behar, and Orissa, the Central Provinces, the United Provinces and Madras.

* Recruitment for Assam.

The outstanding problem during the whole history of tea planting in Assam has been the scarcity of labour. The Surma-valley was able to secure a certain amount of labour either locally or from adjoining districts of Bengal, but in the Assam valley the supply of local labour was negligible and it was found impossible to obtain supplies from areas nearer than Chota Nagpur and Behar. At present, the most important recruiting area for both the valleys is *Chota Nagpur* and *Sonthal Parganas*, though substantial numbers are brought from Behar and Orissa, the United Provinces, Madras, the Central Provinces and even Bombay. The cost of recruiting is in the neighbourhood of Rs. 150/- per head.

The Indentured system.

As recruitment has been so very expensive the employer naturally wanted to ensure that if a man was recruited to work on a particular garden, he actually works there and not elsewhere. This was originally secured by laws based on the principle of *indenture*. The general scheme was that the labourer was bound by a contract to serve for a specified period on the garden to which he was recruited ; if he failed

to work without reasonable cause or absconded, he could be punished criminally and the planter had the right of arresting an absconder. As a set-off against these disadvantages, the Government prescribed a minimum wage.

The Sardari system of recruitment.

The indentured system in practice greatly aggravated the difficulties of recruitment as it increased the disinclination of labourers to go to Assam. As grave abuses became common in the recruiting areas, the Government interfered and prohibited all recruiting except by garden *Sirdars* and made it illegal for any one else to assist, to induce or even persuade a recruit to go to Assam. A garden Sirdar is a man who has actually worked and is employed on a tea garden. His operations are strictly regulated. Moreover, a body known as the *Assam Labour Board* consisting of the representatives of the tea industry and an official chairman, was set up in 1915 with a view to better control of recruiting. The Sirdari system of recruitment brought into existence by the Assam Labouring and Emigration Act of 1901 and 1915 is in theory the safest method of recruiting for the workers as it entrusts recruitment only to *bonafide* workers who are best fitted to give an accurate picture of the conditions obtaining in the garden and who are least likely to make any misrepresentation.

In actual practice, however, the original intention has not been fulfilled. In many cases, workers have been sent down as *Sirdars* after having spent only a few days on the garden. The system, moreover, is quite inadequate to the needs of the industry and is obviously unworkable when new areas have to be opend for recruitment and when new gardens are being developed. Besides, this system is very expensive inasmuch as roughly one *Sirdar* is required to recruit a single labourer.

The Act of 1932.

In 1932 the *Tea Districts Emigrant Labour Act* was passed in supersession of the Assam Labour and Emigration Act of 1901 with all its subsequent amendments. The object of the Act is, on the one hand, to exercise all the control over the recruiting and forwarding of emigrants to the Assam gardens which is justified in the interest of the emigrants themselves, and on the other hand, to remove all unnecessary restrictions. The element of official control has been increased Recruiting is allowed only by licensed recruiters. It is declared unlawful to assist persons under the age of 16 to emigrate unless they are accompanied by their parents and guardians. An emigrant has the right of repatriation at the employer's expense after completing 3 years' service, or if he is dismissed earlier otherwise than for wilful and serious misconduct, or if his health fails, or if he is assaulted by the employer or his agent, or for any other sufficient cause. Provision is also made for the appointment of a *controller of emigrants* with his staff for supervising the general administration of the system, charges being met from an annual *cess*, called the *Emigrants Labour cess* which shall be levied at such rate not excceeding Rs. 9 per emigrant as the Governor General-in-Council may determine for each year. The Act is at present applicable to 8 specified districts in Assam, but the area of its operation might be extended.

Conclusions.

Although the Act of 1932, which is based on some of the recommendations of the Labour Commission Report, has substantially improved the recruiting system, the position can hardly be considered to be an ideal one. The official control of recruitment has always been regared as a regrettable necessity and as a temporary expedient. The aim of recruiting should

be to reach a point where, in effect, organized recruiting is unnecessary. In other words, by making conditions sufficiently attractive, the employer should reach the stage where, instead of having to go out and induce recruits to enter his employment, applicants for employment should approach the employer. Among other proposals, the Labour Commission recommends the *abolition* of the Assam Labour Board which in its opinion has outlived all usefulness.

Labour supply in mining centres.

The Bengal Coal mines recruit their labour mainly from the backward tribes of the Santals and Bauris living on the borders of Bihar and Orissa. The Coal fields of Bihar and Orissa are supplied with local labour and to some extent with recruits from the C. P. and the U. P. In general, coal mines suffer from scarcity of labour inasmuch as the labourers are also mostly agriculturists, and as such are not available in the agricultural season.

IV. Characteristics of Indian labour.

The *first* characteristic of Indian labour is that it is *inefficient*. This inefficiency is due to various factors, such as illiteracy, climate, the unwholesome working and housing conditions and above all, the migratory character of Indian labour.

Secondly, Indian labour is *scarce*. This might appear to be rather strange in a country like India teeming with a population multiplying every decade and where the pressure of the population on land, the only other alternative occupation, is already very acute. The causes of this scarcity, however, have to be sought in the conservatism and ignorance of the Indian masses as well as in the unattractive environment of the typical Indian factories.

Thirdly, Indian labour compared to its counter-part in the more advanced countries of the world is comparatively *unorganized*, though, of late, trade unionism is making its head-way in most of the organized industries of India.

Fourthly, but the *most important* single characteristic of Indian labour, is its *migratory character*. The Indian factory operatives are nearly all migrants, and migration takes place from the rural areas to the factories. "But it is not mainly a permanent exodus; it is in the minds of those who undertake it, and to a large extent in fact, a temporary transfer and the recruit to industry continues to regard as his home the place from which he has come." Of course, the factory worker, except in seasonal factories, is not an agriculturist but he is at heart a villager; he had in most cases a village up-bringing and he retains some contact with the villages. Only a very small percentage of the total labour-force have no village ties and look upon the city as their home.

V. The problem of migration.

(A) The Causes of Migration

The causes of migration are mainly *economic* and partly *social*.

(1) The difficulty of finding an adequate livelihood in one's native village has mainly impelled the Indian villagers to seek industrial employment. The emergence of a substantial class of landless labourers due to the growth of population, the growth of indebtedness and the extinction of village crafts, has supplied the main source from which factory operatives have been recruited.

(2) But although poverty is the main driving force, it is not the only cause of migration. The lower castes and the untou-

chables who suffer from serious social disabilities in the village society have found that in industrial areas caste disabilities lose much of their force and as such they do not hesitate to migrate to industrial centres. Thus the new world of industry offers a refuge to those who are anxious to escape from family conditions that have become intolerable, or from the penalties of the law, or from the more severe penalties with which the village visits offences against its social and moral codes. As the Labour Commission has pointed out the *chief cause* is to be found in the fact that the driving force in migration comes almost entirely from one end of the channel, i. e. the *village end.* The industrial recruit is not prompted by the lure of city life or by any great ambition. "The city as such has no attraction for him and when he leaves the village, he has seldom any ambition beyond that of securing the necessities of life. He is *pushed*, not *pulled* to the city."

(3) A *contributory cause* is the *joint family system* which, by linking the emigrant to the village and even to its soil, serves to keep connection in many cases.

(4) Moreover, the comparative scarcity of employment of women and children in factories encourages the practice of leaving the family in the village where their maintenance is more simple and less costly.

(5) Further, to a large extent Indian life is a *community life* and the more individualistic existence inseparable from a city is strange and unattractive to the villager.

(6) *Finally*, an important cause of the desire of the factory workers to maintain village connection is to be found in the *environment* in which they must live, while employed in the factories. The average factory worker, contrasting the scenes in which he has to live with his memories of his native places must welcome every opportunity of returning

there and must cherish constantly the hope that sooner or later he can leave the city finally behind.

(B) Effects of migration on Indian labour.

The first fact to be noted is that the Industrial worker is living in an environment which is strange to him, and the contrast between his original home and the scene of his work may be tremendous.

(1) As the most important streams of migration cross language boundaries, most factory workers form, as it were, foreign colonies, surrounded by a language and a culture largely alien to them. This alone tends to give an *artificial character* to Indian industrial life. The ties which gave village life its corporate and organic character are loosened, new ties are not easily formed and life tends to become more individualistic.

(2) *Secondly*, the health of the worker who is transported to a new environment is often subjected to severe strain. Both the climate and the diet might be radically different from what he had been accustomed to. Moreover, the change from the wide fields and fresh air of the village to the cramped and often insanitary streets and lanes of the town is bound to affect the health of the labourer. *Lastly*, there are additional dangers from sickness and disease, and from the new and insidious temptations of city life. There is no wonder that alcohol and gambling become the favourite pastimes of the factory worker.

As the labourer necessarily feels home-sick from time to time, he cannot continuously stay in one particular establishment. This prevents him from acquiring efficiency in a particular work. As employment is not always readily available, the labourer after returning from his village home,

often finds it necessary to live on credit and this might involve him often hopelessly in debts.

(3) *Thirdly*, the rapid turn-over of the labour force in industrial establishment not only prevents the building up of a sense of co-operation between the employer and the employee but also places a serious obstacle to the development of healthy trade unionism.

The migratory character of Indian labour, however, is not an unmixed evil.

(1) The contact with the village means, *in the first place*, that most industrial workers have been brought up in more natural surroundings. They usually bring a better standard of physique than could be built up in many industrial areas.

(2) *Secondly*, the combination of urban and rural life brings a width of outlook which is apt to be lacking in a purely urban population.

(3) *Thirdly*, it provides a measure of insurance against the effects of the various changes which may reduce, interrupt or destroy the earning capacity of the worker. "In sickness and in maternity; in strikes and lock-out, in unemployment and in old age, the village home is refuge for many; and the fact that it exists affords a sense of security even when it is no required."

(4) *Fourthly*, this contact has got great educative effect. As the Royal Commission on Agriculture has observed—the life of the city should quicken the mind and enlarge the outlook of a greater number of labourers than it corrupts. The industrial worker on his return to his native land helps to diffuse throughout the country side not merely his knowledge of a wider world but a conception of liberty and of independence that is new to village society.

The above analysis of the merits and demerits of the

migratory character of Indian labour naturally leads to the practical question, namely what should be our future attitude towards this village connection of the factory worker. The Labour Commission records its considered opinion that in present circumstances the link with the village is a distinct asset and that the general aim should be not to undermine it. but to encourage it and as far as possible to regularise it.

METHOD OF RECRUITING FACTORY OPERATIVES.

(1) The position of the jobber.

A peculiar characteristic of Indian factory organisation is the fact that the employer does not directly take the responsibility of employing workers. This duty is left to certain intermediaries known as jobbers. The typical jobber combines in himself a variety of functions. He is primarily a chargeman and as such is responsible for the supervision of labour while at work. The worker has to approach him to secure a job and is nearly always dependent on him both for the security of that job as as well as for a transfer to a better one. Many jobbers also give loans to the worker when he is in difficulties and may also help him in various other ways. The jobber acts as an intermediary between employer and employee. It is to the jobbers that the employer generally goes when he wishes to notify a change to the worker ; it is from the jobbers that he derives most of his informations regarding their needs and desires. The jobber thus discharges certain functions which are generally done by trade-union officials in the West, and he is occasionally found acting in the capacity of a strike leader.

It is clear from the above description that the temptations of the jobber's position are manifold. It is therefore quite natural for the jobber to profit financially by the exercise of this power. The evil varies in intensity from industry to industy and from centre to centre. The jobber usually exacts a fee as the price of engagement or of re-employment from the worker. In many cases a smaller regular payment has also to be made out of each month's wages ; in other cases, the worker has to supply the jobber with drink or other periodical offerings.

Suggested Reforms.

The Labour Commission advocates the exclusion of the jobber from the engagement and dismissal of labour and recommends the employment of a Labour officer to discharge the jobber's function who should be subordinate to no one except the general manager of the factory.

As regards supervision of women workers, when it is undertaken by male jobbers it leads to serious abuses. Where women workers are numerous, they are often under the charge of other women known as *Naikins*. As these women are generally of low character, the evil is seldom diminished. The Labour Commission recommends the appointment of at least one educated woman in charge of the female staff of the factory.

SOME STRIKING EVILS OF THE INDIAN FACTORY SYSTEM

I. Conditions of work in the mills.

Although industrialism in India is a comparatively recent development, and as such India had sufficient opportunities for profiting from the experience of the West, nevertheless, without

the excuse of ignorance, Indian industrial history has been marred with all the blemishes which had been its usual feature elsewhere.

(1) *In the first place*, for a long time nothing was done to remove the trying conditions of work in the mills and factories. The absence of proper ventilations, and artificial humidification specially in the cotton mills has rendered the factory atmosphere exceedingly stifling and unwholesome. Provision should be made for better ventilation of the mills and for reducing the evil effects of artificial humidification as far as possible.

(2) Again, in most mills and factories there are no proper arrangements for the meals of the workers. The meals are usually brought from outside and the factory worker some-how helps himself to them. The provision of proper canteens and of dining sheds will go a long way towards the remedying of this defect.

(3) Moreover, there should be proper bathing and latrine arrangements for both the sexes. For females, there should be a separate common room where they might spend their mid-day recess fairly comfortably. So far, only a few mills, like the Buckingham and Carnatic Mills in Madras, have provided some of these amenities.

(4) The Labour Commission recommends that cretches for young children should be provided in all places where women are employed in considerable numbers, and they would make the obligation a statutory one in all factories employing not less than 250 women.

II. Evils of employing women and children.

The employment of women and children has also created very grave problems the satisfactory solution of which at an

early date is highly desirable. In one sense, the system is good under present circumstances inasmuch as the working unit in the case of the poorer classes is the *family* rather than the *individual*. Unless the wages of the average male adult increases sufficiently to maintain the whole family, it is desirable that the women and children of the worker's family should be given employment.

Secondly, the employment of women in factories serves to mitigate the evils arising out of sex disparity in industrial areas. If all women were immediately excluded from factory employment, the proportion of males to females in the factory area would be largely increased, and this itself would aggravate the evils of immorality.

On the other hand, the employment of women and children has not been unattended with very great evils. The hours of work, until recently, were highly excessive, having regard to their lower physical standard and the enervating effect of the tropical climate. The woman's position is particularly miserable as she is both a factory worker and a domestic drudge. And when the woman becomes an expectant or nursing mother, her continued service has very deleterious effects both on her own health as well as on her children's.

The Labour Commission recommends that women should be given leave with full pay for one month before, and one month after, the date of her delivery, provided they do not work elsewhere. The Commission further recommends that nursing mothers should be given some interval of rest during factory hours for breast-feeding their children.

Absenteeism in Indian factories.

A great obstacle to the smooth working of the Indian factory system is the large percentage of absenteeism which takes

place among the labourers. The percentage exhibits seasonal variations, and reaches the highest peak generally in the marriage and festival seasons synchronizing with the monsoon months. Absenteeism also increases after the pay-day or after the grant of a bonus to labourers. The agricultural season is also partly responsible for absenteeism in factories and mines.

The remedy for this defect is not easy to suggest. The formation of labour reserves, as suggested by the Textile tariff Board, might largely relieve the factory managers of their anxieties in this respect, but it would not solve the problem in as much as a large number of people would be kept unemployed at frequent intervals.

The rapid turn-over of labour in Indian factories, due to the migratory character of the operatives, is also largely responsible for absenteeism. It has been said that fifty per cent of the labour force in the Bombay mills changes in the course of a year as against less than ten per cent in Lancashire. As the Factory Labour Commission has pointed out, the Indian labourer is fond of wandering from mill to mill, and the slightest pretext or temptation is sufficient to induce him to give up one employment for another.

EFFICIENCY OF INDIAN LABOUR

Estimates of the relative inefficiency.

Various estimates have been made about the relative inefficiency of Indian labour compared to the efficiency of European labour. According to Sir Alexander McRobert the English worker is 3.5 or even 4 times as efficient as the Indian labourer while Sir Clement Simpson calculated that 1 mill-hand of Lanca-

shire is equal to 2·67 hands in an Indian Mill. This sort of mathematical calculation, however, as Dr. Slater has pointed out, is extremely fallacious, in as much as we can never ascertain the separate productivity of labour. The apparent lower productivity of Indian labour may also be due to relatively inferior management, the absence of up-to-date machinery, and the bad quality of the raw materials used quite as much as the inherent inefficiency of the labourer himself. Above all, the low wages of Indian labour is at once the effect and the cause of his relative inefficiency. Although it is clear that the inefficiency of Indian labour has been much exaggerated, there can be no doubt about the fact of inefficiency.

Causes of inefficiency.

The causes of this inefficiency are not far to seek.

(1) They are to be traced *first* in the climatic conditions of India. The tropical climate of India has a great enervating effect on the human system.

(2) The artificial humidification of the cotton mills, combined with lack of proper ventilation and of proper sanitation is a further cause of labour inefficiency.

(3) The low standard of wages of Indian industrial workers is also largely responsible for the inefficiency of Indian labour. A large part of the labourer's income is absorbed by the bare necessaries of life such as food, clothings and shelter; while another substantial part goes to drink. The result is that practically nothing is left for necessary expenditure in the interests of the labourer's efficiency. If, over and above, we remember the growing volume of the indebtedness of the industrial worker, we can easily realize the difficult and embarrassed position in which the industrial worker is placed.

(4) Another important contributory factor is the bad

housing condition in the industrial centres. Labourers usually live in filthy *bastis* or *chawls*, where countless heads are huddled together as in a sheep-cote or ware-house and where there is little or no arrangement for any sort of privacy. The water-supply is hardly adequate or of the requisite quality, while the drainage system is usually most defective, if not positively revolting. Such an environment natural tells upon both the physique and the morals of the Industrial labourer.

(5) The lower efficiency of the labourer is also due to his lowered physical vitality brought about by the ravages of diseases like malaria, influenza, kala-zar etc ; as well as by the poor dietary which characterises practically the whole Indian population.

(6) Indian labour is mostly illiterate and untrained. Even practical training in any particular work is rendered largely impossible by the migratory character of Indian labour and by the fact that most Indian labourers are at heart agriculturists and as such they feel little urge for mastering their own work.

(7) The absence of healthy Trade unionism which, in the advanced countries of the world, does so much to inspire a new dignity and aspiration in the mind of the average worker, must also be reckoned as a further contributory factor.

(8) Lastly, the relatively smaller output per head in Indian factories and mines is to a large extent due to the use of poor raw materials, comparatively antiquated tools and methods and due to the general inefficiency of management. This last point is generally overlooked when the Indian employer goes on lecturing on the industrial inefficiency of India. As Dr. H.L. Dey has pointed out, there is hardly any rationalization in any of the major industries of India. Indian industries so far have been largely managed or mismanaged by a few firms of managing

agents who have endeavoured to swell their incomes more by exploiting the labourers and the sympathies of the general public, than by organising their business. Competent observers, both Indian and European, are not wanting who have asserted what may be regarded as a heretic dogma that the average Indian factory hand, especially in the cotton mills of Bombay, given his low wages, is in an economic sense even more efficient than the average Lancashire hand.

The Housing Problem of Indian Labour.

The problem of the housing of the industrial labourers presents very serious difficulties in almost all the highly industrialised countries of the world and India is no exception to the general rule, although she ought to have profited by the experience of her predecessors in the industrial field. In India as elsewhere big industrial centres came into existence in a most half-hazard and thoughtless fashion and apparently there was no planned thinking on the housing problem of an ever-increasing army of labourers. Besides, the bad selection of sites, limitation of space and high land values are responsible for much of the congestion in large cities. No statistical information, however, is available regarding either the relative or the actual shortage of houses in urban and industrial areas. According to the Labour office family budget investigation of 1921-22, 97 per cent of the working classes in Bombay were accommodated in one-roomed tenements occupied by 6 to 9 persons. In Ahmedabad 73 per cent of the working classes live in one-roomed tenements. Corresponding figures for Howrah, Calcutta, Madras etc. are not available. But the home-sickness and mortality rates and especially the extraordinarily high infantile mortality rate are sufficient indications of the scandalous overcrowding in all the industrial centres.

The problem in Bengal.

The *Bustees* of Bengal, specially in Calcutta and Howrah, reveal a degree of overcrowding and congestion which is probably unequalled in any other industrial area in India. The only redeeming feature is presented by the housing schemes of some of the enlightened employers in the Jute Mills areas. According to the figures collected by the Labour Commission, in 53 Mills, nearly 41 thousand houses were built to accommodate about 13,1000 workers. These mill-bustees present a vivid contrast to the other housing accommodation available.

Similarly, in Titagar and Bhatpara big schemes of sewerage and water supply have been executed with the help of a Government subsidy.

The problem in Bombay.

In Bombay most labourers are housed in chawls which are tenements 3 to 4 storeys high with at least one family in each small room. In these chawls, cleansing and sanitation are utterly neglected and the entry of light and air is greatly restricted and what is more, these chawls are impossible of improvement and as such fit only for demolition.

Some of the Bombay textile mills, the Bombay Port Trust, the Bombay Improvement Trust have, of course, provided somewhat better housing accommodation for some of the labourers, but it is utterly inadequate. The Government of Bombay through its Development Department built 207 new concrete chawls containing over 16000 single-roomed tenements. Although these chawls are reasonably provided with air, light, water, roads, lighting and shops and in some cases with schools and dispensaries, they are almost amazingly ugly and as such very unpopular. It is to be hoped that future Development Schemes will show greater artistic imagination. In the Bombay

Presidency a model industrial firm is being built at Ambernath with all modern facilities which, when completed, might serve as an example for future development schemes.

The Bombay Improvement Trust offered to build up better *chawls* for the mill-owners provided they undertook to repay within 50 years the sums necessary for that purpose. Unfortunately, however, the offer was not accepted.

The problem in Madras.

In Madras, the industrial workers live in "*cheries*" which are no better than some of the worst "*Bustees*" of Bengal. In these "*cheries*" the primary necessities of life are altogether inadequate. Both roads and drainage are absent and in the absence of latrines, streams of sewage filter over the path-ways. In Madras city proper, there is such an acute shortage of houses that hundreds of workers are entirely homeless and live on the streets or on the verandahs of go-downs. Only a few enlightened employers like the Buckingham and Carnatic Mills Company have built up ideal homes for some of their workers.

The position in other factory areas.

The position in Cawnpore is no better, the only bright spot being the housing scheme of the British India Corporation at Mc-Robertganj. The Cawnpore Improvement Trust has not been so far able to effect much improvement on account of the apathy of the employers. At Karachi, Ahmedabad and Nagpur, the position is more or less the same with some bright exceptions.

The positions in the mines.

In the mining areas the housing problem has some special features. The exhaustible nature of a mine as well as the

possibilites of subsidence caused by under-ground workings, present handicaps to substantial housing schemes. Many of the coal miners live in the neighbouring villages while others dwell in arched *dhowrahs* which are often dark and ill-ventilated. The latrine accommodation is inadequate and there is room for an increase in bathing and washing places near the line.

In Jamshedpur the employers have done most to provide decent quarters for the workers or to encourage them to build up houses for themselves with the help of cheap loans and advances.

Lastly as regards Railways only at way-side stations most members of the staff are provided with Railway quarters although on some railways a proportion of the workshop staff is provided with houses owned or leased by the Railways.

Concluding observations.

Such then briefly, is the present position of the labourers as regards housing accommodation. As the Whitley Commision has pointed out, "one fact which stands out from the outline we have given is that the action taken by the parties concerned—employers, Government and local bodies—is in inverse ratio to their responsibility. Employers have done most; municipal councils least. The latter are primarily responsible for the health of their citizens, and that responsibility can not be discharged in the industrial cities unless a vigorous attempt is made to improve housing. "............quite apart from the failure to formulate and execute a constructive housing policy, municipalities have generally failed to use their existing machinery and powers to control the lay-out and erection of new buildings." To a large extent, this present muddle is due to the lack of realization of the exact responsibility lying on the shoulders of any particular party. As Dr.

Soni has observed, "The employer turns his empty pockets inside out,, local authorities show their annual deficits, their heavy liabilities, and the long list of their pawned resources; and the state has no fixed policy, little sympathy and hardly any interest."

Recommendations of the Labour Commission

The Whitley Commission asserts that the position demands immediate attention not only from Governments and local authorities but also from organized industry and the public since all are deeply concerned. The Commission makes the following recommendations :—

(1) A *Ministry of Health* should be formed in each Province and a *Public Health Act* should be passed. The Ministry of Health should lay down minimum standard in regard to floor and cubic space, ventilation and lighting and draw up regulations for the provision of water-supplies, drainage system and latrines for working class housing schemes. Public Health Departments should also prepare plans with approximate costs of different types of houses and be available for advice to employers and local authorities.

(2) *Town Planning Acts* after the British model should be passed in all the industrial Provinces to provide for the acquisition and lay-out, of suitable areas for working class population and for the opening up and reconstruction of congested and insanitary areas. The Acts should also provide for the *zoning* of industrial and urban towns whereby in future the erection of new factories can be prohibited except in areas especially allotted for industrial development, and other areas can be reserved for industrial housing schemes. Schemes approved by the Ministry of Health should be eligible for Government grants and loans. Following the example of Madras, a Director of

Town-planning may be appointed so that expert advice might be available not only to local authorities but to leaders of industry.

(3) The Commission recommends the establishment of *Improvement and Development Trusts* in big Centres like Howrah where they do not at present exist. It further recommends that the provision of housing for the working classes should be a statutory obligation of these Trusts.

(4) *Municipal Councils* should be compelled to appoint Health officers and to provide in every way for the proper sanitation of working class houses. They should also see that the different building by-laws are scrupulously obeyed.

(5) *Land Acquisition Acts* should be so amended in all the Provinces as to enable the Government to acquire land on behalf of employers from private owners for the housing of labour, subject to certain safe-guards.

(6) Finally, the Commission recommends the starting of *Co-operative Building Societies* on the lines of the housing society at present existing among the workers of the Calico Mills in Ahmedabad where the worker's share of cost is advanced by the Company.

Such then are the principal recommendations of the Whitley Commission. It is to be regretted that so far practically nothing has been done to implement them. Yet the present policy of muddle cannot go on for all time. The employers should realise that the industrial efficiency of India fundamentally depends upon the existence of a healthy and contented labour force. In fairness, it must be admitted that some of the employers have fulfilled their responsibility in this respect. But the other parties, namely, the Government and the local authorities have so far persisted in shirking their heavy

responsibilities. It is to be hoped that in the new era of Provincial Autonomy, the public authorities in India will boldly face the colossal task ahead.

**THE INDEBTEDNESS OF THE INDUSTRIAL LABOURER

Extent of the evil.

Though reliable statistics are wanting, it is generally agreed that the majority of industrial workers are in debt for the greater part of their working lives. Many are born in debt and it is not uncommon for a son to assume responsibility for his father's death, the obligation resting on religious and social and very seldom on legal sanction. According to the Labour Commission, the proportion of families or individuals who are in debt is not less than 2/3 of the whole. In the majority of cases, the amount of debt exceeds 3 months' wages and is often far in excess of this amount. The usual rate of interest charged on these debts is 75 per cent per annum which in the case of the man "who is only 3 months' wage in debt," involves a monthly charge of nearly 20 per cent of the wages'; apart from the usual obligation of repaying instalments of the principal, rates of interest as high as 150 per cent or 225 p.c. and even 325 per cent are not altogether unknown.

Causes of indebtedness.

(i) The most important single cause of borrowing is the expenditure on marriages. It is not uncommon for a labourer to spend on a marriage the equivalent of a years' wages and to borrow the whole of that sum at a high rate of interest. Thus as the Labour Commission has pointed out, the Indian industrial,

worker is too often coerced into what may be his own enslavement for years by social pressure.

(2) Strikes lasting for a considerable period are also a cause of indebtedness inasmuch as the Indian labourer normally lives from hand to mouth and as such has little to fall back upon in times of voluntary idleness.

(3) The migratory character of the Indian labourer serves to increase his indebtness in *2 ways* :—

(a) The labourer after returning from his village may not easily obtain fresh employment. During this period of unemployment he has generally to live on debts incurred from the jobber or the shop-keeper or the professional money-lender.

(b) Secondly the burden of his debts becomes heavy in proportion to his mobility. The man who moves from mill to mill, from centre to centre, from town to village, is an unsound proposition from the money-lenders' point of view. It is not surprising, therefore, that the labourer should have to pay particularly high rates of interest.

(4) Lastly, the period of wage-payment is also partly responsible for the worker's indebtedness. Where the monthly system of payment prevails, the worker usually does not obtain his wages before the elapse of 6 weeks. This long waiting period invariably adds to the embarrassments of the poor, and has an appreciable influence in binding the worker to the money-lender. It has the further disadvantage, namely, that the worker, being an illiterate man cannot take a long view and as such feels tempted to spend somewhat lavishly immediately after the pay-day, and as such he has to live upon credit in the closing days of the month.

Remedial measures.

The Labour Commission has expressed its firm conviction

that "the fatal weakness of the present system is the *comparative ease* with which the worker can borrow sum which he has little prospect of being able to repay. It is lack of education that tends to prevent him from taking long views ; and the offer of cash to the extent of a hundred or two hundred rupees in exchange for a thumb-print is almost irresistible. The lack of forethought in mortgaging the future is illustrated by the fact that the thumb-print is frequently given on a blank document. It is by no means uncommon for the money-lender to fill in both the capital sum and the interest rate subsequently, and in any case the borrower has no copy of the transaction and has usually to rely entirely on the money-lender for a periodical reckoning of the position." And as the worker's debts are largely due to the fact that the lender finds in him a profitable investment and is ready and, indeed, eager to give him money which it is contrary to the latter's interest to accept, the Commission is in favour of reducing the worker's attractiveness as a field for investment.

(1) The Commission recommends the passing of *laws against usury* more vigorous than the existing Usurious Loan's Act of 1918. According to the Provincial Banking Enquiry Committees, the comparative inaction, so far, is due not to inertia but to the general reluctance to interfere with the sanctity of contract and the lack of faith in the efficacy of legislation. The Labour Commission, however, does not regard this objection to be very strong or insuperable.

(2) The Commission also recommends some *changes* in the Code of Civil Procedure in order to prevent the money-lender from securing the attachment of the debtor's wages in the case of every workman receiving less than Rs. 300/- a month.

(3) The Commission further recommends that for in-

dustrial workers receiving less than Rs. 100/- a month, arrest and imprisonment for debt should be abolished except where the debtor has been proved to be both able and unwilling to pay.

(4) It is also recommended that *bonafide* Provident funds should be protected from attachment.

(5) Power should also be given for *summary* liquidation of *unsecured* debts on the lines of ordinary Insolvency Procedure.

(6) Moreover, the *period* of limitation of unsecured debts which is at present 3 years should be reduced to 2 years, nor should the creditor who has secured a decree be permitted to keep the decree alive for 12 years.

(7) The Commission also recommends that *besetting* an industrial establishment for the violent recovery of debts on the pay day should be made a criminal and cognizable offence.

(8) Lastly, the Commission recommends a shorter period for wage-payment. The method of weekly payment is particularly commendable in most cases.

Conclusions

Though the Labour Commission relies chiefly on legislative measures for the cure of indebtedness, in our opinion, legislation alone cannot solve the problem. There is the further risk that the money-lender might be scared away by too stringent measures against him and the financial position of the industrial worker might be impaired rather than improved at least for sometime. In so far as the indebtedness of the industrial worker is due to social causes, the fundamental remedy should be *social* rather than legal and for that purpose the spread of education is an imperative necessity.

TRADE UNION MOVEMENT IN INDIA.

History of the movement.

In India the association of employers in a particular industry for the advancement of common interest came into existence much earlier than the association of labourers for promoting common labour interest. It was only during the early post-war years when the grave economic difficulties of labour following the phenomenal rising prices and the general political tension, together with the world-wide uprising of labour consciousness, instilled into the minds of the labourers the necessity for combination for advancing their own interest. The main difficulty during this period centred on the question of recognising the labour leader drawn from outside the ranks of labour. Employers as a rule, were ready to treat with Unions led by their own workmen but refused to recognise any outsider.

In 1920, however, the Government of India accepted the principle of the right to employ outsiders.

In 1920 the All-India trade Union Congress was established as a mark of recognition of the Common interest of labour throughout the country. The Congress has served until 1929 as a meeting place for all types of trade union activities in India and as a link between Trade Unionism in India and in Europe.

In 1926 the Trade Union's Act was passed which conferred certain privileges as well as obligations on registered Trade-Unions. The Act gave an enhanced status to trade unions particularly in the eyes of the employers and the general public.

While the official recognition of Trade Unionism was calculated to keep the Indian labour movement on the path of orthodoxy, a disintegrating force appeared on the scene with

the infiltration of Communist ideas into the world of labour. The main inspiration came from Moscow, the Soviet Head-quarters and in the All-India Trade Union Congress of 1928 Communism met with a signal triumph. In 1929 serious differences arose on the question of affiliation to the Pan-Pacific Trade Union Congress (which was a communist organisation) and of the severance of the connexion with the International Labour Organisation at Geneva. These differences culminated in a split, and the more orthodox sections seceded from the Congress and founded the All-India Trades Union Federation. Since then, the Indian labour movement has been marked by disunion and disintegration.

The right of labour to organize for revolutionary purposes was tried in the famous Meerut Conspiracy case and the decision of the special tribunal was tantamount to a denial of such right.

With this brief historical introduction, we now pass on to a discussion of some of the specific problems of Trade Unions.

Difficulties of Trade Unionism in India.

The difficulties of trade unionism in India are partly *internal* and partly *external.*

As regards *internal* difficulties, we might mention the following facts :

(1) The *migratory* character of Indian Labour. Healthy Trade Unionism requires the existence of a stable industrial population which is largely absent in India.

(2) The general *lack of education* among the labourers. Active participation in trade union activity requires some amount of literacy and a comparatively wide outlook, both of which are largely absent in the world of Indian labour.

(3) The *poverty* of the average worker is another serious

handicap. Trade Unions in India are seriously handicapped by paucity of funds in as much as most labourers cannot even afford to pay the small subscription which membership entails.

(4) The *heterogeneous nature of the labour-force* in most of the industrial centres presents another serious difficulty. Differences of race and language and absence of a common *lingua-franca* serve to divide the ranks of labour.

(5) The active *opposition of the jobbers* to anything resembling a horizontal organisation of workers presents a further difficulty.

(6) The *absence of a democratic spirit* among the industrial workers is a fundamental defect inasmuch as healthy trade-unionism can flourish only when the labourers are imbued with genuine democratic sentiments.

(7) The *exotic origin* of trade unionism makes it all the more difficult for the illiterate workers to appreciate the nature and obligations of trade-union membership.

(8) Last, but not the least, we might mention the fact that trade-unions in India have not yet been able to secure *leaders* from among the ranks of labourers. The typical trade union leader is generally a middle class lawyer who devotes all his energies to the furtherance of labour interest either in a philanthropic spirit or for political purposes. These men no doubt render yeoman's service to society, but it must be confessed that they should have no place in an ideal labour union. They have seldom a complete knowledge of the technical details of industry and as such they can hardly hope to meet the employer on equal terms in any negotiations. Secondly, their training makes them unable to understand the real difficulties and grievances of labourers. Thirdly, they sometimes attempt too much and thereby they diminish their own effectiveness. Lastly, the fact that the work is gratuitous

tends to weaken its intensity and sometimes diminishes their sense of responsibility.

(B) As regards *external* difficulties, the main difficulties come both from the Government and the employers. Of course, since the passing of the Trade Union Act of 1926, the Government and the employers have formally recognised Registered Trade Unions, but even now most Trade Union activities are looked upon with suspicion by the Government and the capitalists who seem to scent communism everywhere. This attitude, however, is highly deplorable and even short-sighted from their own point of view. Particular employers in particular places might reap some advantage from the repression of labourers. But they should realise that "whilst the advantages to be gained from repression are temporary and precarious, those that accrue from a healthy organization are lasting." The policy of repression thus is more likely to give Trade Unionism a revolutionary turn which can be averted only by a policy of active and sympathetic guidance.

TRADE UNION ACT OF 1926.

Main Provisions.

(1) The Act gives a legal recognition to Trade Unions and is mainly based on the recommendations of the Royal Commission on Trade Disputes and Trade Combinations that sat in England in 1905. Yet this Act differs from British and Dominion legislations on the subject mainly in the fact that the application of its provisions is restricted to those unions which are registered under it.

(2) Under this Act, Trade Unions may or may not be registered, though registered trade unions have some privileges as well as obligations.

(3) As regards obligations, registered trade unions must have a name and must define the objects for which they are constituted. They must furnish audited accounts every year, and at least one-half of the members of the Executive must be actual workers.

(4) As regards privileges, it has been provided,

(a) That all Trade Union officials, acting in furtherance of legitimate objects of the union, shall be granted immunity from criminal liability and also shall not be indicted for conspiracy ;

(b) That no suit shall be maintainable in any Civil Court against any officer or member of a registerd union for any act done in furtherance of the legitimate objects of the union, on the ground that such an act induces some other persons to break some contract of employment ;

(c) That no suit shall be maintainable in any Civil Court against a registered trade union for any act done by any person acting on behalf of the union, provided such acts are not authorised by the union ; lastly,

(5) That a registered Trade Union may collect funds from its members on a purely voluntary basis for the promotion of any civil or political interests of its members.

LABOUR LEGISLATION IN INDIA.

The necessity for labour legislation.

The necessity for labour legislation has been keenly felt in all countries where industrialism has made some progress. The Industrial Revolution in England took place at a time when the doctrine of *laissez-faire* was the universally accepted creed of the people. It was then fervently believed that progress could be achieved only by a complete surrender to the process of Natural Selection which required complete non-intervention

in the relations between labour and capital on the part of all external agencies. If Natural Selection meant much hardships and miseries to the factory workers, they were explained away as the necessary price for evolution.

It was only in the second half of the 19th century that it came to be generally recognised, that Nature was not always a trusty guide for man and that Natural Selection should be countered by an Ethical Selection. This new out-look gave rise to the doctrine of State Socialism which has been accepted, to a greater or lesser extent, by almost all the civilised nations of the world. Now, for the first time, Labour Legislation obtained its theoretical support and nowhere else has it become so advanced in character as in England, the birth-place of modern Industrialism, and formerly the greatest champion of *Laissez-faire* ideas.

Beginnings of Labour Legislation in India.

Though the necessity for a Factory Act was first pointed out by two Bombay officials, the first serious effort in this direction was significantly enough made on an insistence from Lancashire. The growth of the Bombay Cotton Mill Industry alarmed the British Cotton interests and just to cripple the competitive strength of its rival, the Manchester chamber of Commerce urged the Secretary of State for India to apply to India the British factory Law. Accordingly, a factory Commission was appointed in Bombay in 1875, and the Factory Act of 1881 was passed.

The Act of 1881 applied only to children working in factories which employed not less than a hundred persons and which used power. The age of 7 years was prescribed as the minimum age for working children. A child (whose age must lie between 7 and 12 years) could work for a maximum of 9

hours a day with an hour's daily rest and with four holidays in the month.

The Act of 1881, though it was a triumph for conservative opinion, aroused much political opposition in India on account of the peculiar nature of its origin. A strong feeling grew up in India that the Government was being influenced by "ignorant English philanthropists and grasping English manufacturers," that in drafting the legislation the hand was the hand of Manchester.

The Act, however, did not satisfy Lancashire and largely thanks to its agitation, a second Factory Act was passed in 1891. It applied to all power-using factories employing not less than fifty persons. A working child for purposes of factory employment was defined to be between the years of nine and fourteen. Maximum hours of work for children were defined to be seven per day and the working time both for women and children was limited to the hours between 5 a. m. and 8 p. m. Maximum hours of work for women were defined to be 11 hours per day. Some provisions for resting intervals were made both for men and women.

The factory Act of 1911.

The rapid development of the Cotton Mill Industry of Bombay and the Jute Mill Industry of Bengal led to great exploitation of labour Accordingly, a more comprehensive Factory Act was passed in 1911 which applied to certain seasonal factories as well. Owing to the great abuse of child labour, the producing of an age certificate was made compulsory for the employment of all children. Maximum hours of work were prescribed as six for children and twelve for adult males in all textile factories. Night work for women was prohibited except in the case of cotton ginning and pressing factories. Provisions

were also made for the better sanitation and better inspection of factories.

Factories Act of 1922.

The next step forward was taken in 1922. It was made inevitable by various and complex forces, such as the growing industrialization of the country, the Post-war growth of labour consciousness, the abuse permitted under certain exemptions in the old legislation (e. g. the night work for women in cotton ginning and pressing factories), as well as the assumption by India of certain international obligations due to her membership of the International Labour Organization. The Act applied to all power-using factories employing not less than 20 persons while option was given to the provincial Governments to extend its application to factories, whether power-using or not, employing not less than ten persons. The children's age of employment was prescribed to be between 12 and 15 years. Hours of work for adults were limited to sixty in the week and 11 per day, a week consisting of six days. Provisions were also made for compulsory rest intervals, for the appointment of qualified whole-time inspectors, for better sanitation and for more effective safety measures.

The Act of 1922 underwent two amendments in 1923 and 1926. The first amendment removed a minor defect as regards weekly holidays. The second amendment related to certain administrative difficulties as regards the provisions for rest intervals. Provisions were also made for prohibiting the cleansing of machinery in motion, for better reporting of accidents, for preventing guardians from employing children in two or more factories on the same day, and for including electrical generating stations and water-works within the scope of factory law. In 1933 the Children (Pledging of Labour) Act

was passed which made it a criminal offence for guardians to pledge child labour in exchange for advance money.

The Factories Act of 1934.

(1) The Act of 1934 was passed in order to implement some of the recommendations of the Labour Commission Report. Its *outsanding* provision related to hours of work for adults, the maximum prescribed being fifty-four hours in the week and ten hours per day in the case of perennial factories. The hours for children were laid down as five per day.

(2) The Act also recognised a *third* group of workers (persons over fifteen and under seventeen years) who were to be regarded as children unless declared medically fit for adult employment.

(3) The Act recognised the principle of '*spread-over*' and limited the number of *consecutive* hours to thirteen for adults and to seven and a half for children.

(4) The Act also provided for better welfare arrangement in factories, such as resting shelters, cooling arrangements, first aid appliances, creches for the children of female workers.

(5) The Act also prescribed both the extent of and payment for over-time work.

The Payment of wages Act of 1936.

This Act, based on the British Truck legislations, is calculated to give effect to some other recommendations of the Indian Labour Commission which were not embodied in the Act of 1934. The Act mainly lays down the principles for fines and deductions from wages and is meant to apply in the first instance to factories and railways, though local Governments are

empowered to extend its scope of application. Its main provisions are as follows :

(1) Wages include bonus and compensation paid for dismissal but not gratuities or employer's contributions to provident funds.

(2) No wage period shall exceed a month. Wages are to be paid before the expiry of the seventh day after the wages are due.

(3) Deductions from wages are permitted only in respect of fines, absence from duty, damage to or loss of goods expressly entrusted to workers.

(a) No fines are to be imposed on children below the age of 15 years.

(b) No fines may be imposed except in respect of such acts or omissions as have been previously exhibited in notices approved by the local Government.

(c) The total amount of fines that might be imposed on any particular person during any wage-period shall not exceed half an anna in the rupee of wages for that wage-period.

(d) No fines can be recovered after the lapse of sixty days.

(e) The proceeds of all fines are to be spent on beneficent works for labourers.

(4) Deductions for absence from duty shall not bear a larger proportion than the period of absence bears to the period of duty.

(5) Recovery of an advance made before employment, for reasons other than travelling expenses, shall be made from the first payment of wages in respect of a complete wage period.

(6) Inspectors of factories shall be responsible for the administration of this Act.

Labour Legislation for Mines.

The first Mines Act was passed in 1901 which provided for the appointment of inspectors. With the development of the mining industry, the inadequacy of the Act was realised and accordingly in 1923 a new Act was passed. It prescribed sixty hours per week as the maximum for work above-ground and fifty-four hours per week for under-ground workers, a week consisting of not more than six days. Under-ground work was prohibited in the case of all persons below thirteen years of age. Nothing was done to prohibit the work of women under-ground, as women workers formed 45% of the total number of under-ground workers. In 1929 the Government of India made its first effort to implement the recommendations of the Washinton conference in regard to the employment of women. Regulations were passed to exclude all women workers from under-ground mines except in certain exempted mines, namely, the coal mines in Bengal, Bihar, Orissa and C.P., and the salt mines of the Punjab. In the latter mines, the Government promised to apply the prohibition with effect from July, 1939.

The Government's hesitation in this respect is due to the opposition of the mine-owners. From the latter's stand-point, female labour is very convenient on account of its relative cheapness and docility. Moreover, the working unit in the mining areas is the family. The exclusion of female labour, therefore, unless it is accompanied by a substantial increase in the wages of adult males, might result in labour shortage which would precipitate a fresh crisis in the mining industry. On the other hand, from the social standpoint, it is imperative that women should not be allowed to work under-ground with males.

As the Act of 1923 did not regulate the hours of work in the mining areas, an Amendment Act was passed in 1928 which

permitted a double-shift system so that one set of workers could work for twelve hours at the maximum.

The last Amendment Act was passed in 1935 which prescribed a 54-hour limit per week at the rate of not more than 10 hours per day in the case of surface workers and not more than 9 hours per day in the case of under-ground workers. Provision was also made for rest intervals in both the cases.

Besides the above Mining Acts, there have been established Mines Boards of Health which look after the health of the mine-workers and which have been authorised to compel mine-owners to provide housing and sanitary facilities for their labour force.

Labour Legislation for Railways.

We have already seen that railways workshops have been included within the definition of factory for purposes of factory legislation. The other classes of railway workers were left unprotected, though the Government of India ratified both the Washington and Geneva conventions in their application to Indian Railways.

With the passing of the Indian Railway (Amendment) Act of 1930, a step forward was taken for the fulfilment of the Government's international obligations. The Act provided that a railway servant must not work for more than 60 hours a week on the average in any month though the maximum for seasonal or temporary workers is 84 hours per week. The week in both the cases is to consist of not more than 6 days. Temporary exemptions, however, are provided for in cases of emergency and exceptional pressure of work. Supervisors might be appointed by the Government for observing the actual execution of the provisions of the Act.

Workmen's Compensation Act of 1923.

The idea of compensation for accidents occurring in the course of the workers' regular employment and as a result of the risky nature of the employment is of comparatively recent growth in India, though in the west it received legal recognition fairly long ago. Of course, in India a Fatal Accident's Act was passed as early as 1885 under which an employer could be sued in the case of a fatal accident occurring in the course of work but this Act has been practically a dead letter.

It was in 1923 that the first comprehensive compensation Act was passed in India.

It applied to all factory workers, mine workers, transport-workers, dock labourers, telegraph and telephone linesmen, under-ground sewage workers and certain classes in the building trade.

There are two scales of compensation, one for death and the other for fatal permanent disablement. As regards death, the dependents of adults defined as persons above 15 were entitled to a compensation equivalent to the worker's 30 months' wages subject to a maximum of Rs. 2500/-, while as regards a minor only Rs. 200/- had to be paid.

In the case of permanent disablement, the adult worker could claim 42 months' wages and a minor 84 months' wages subject to a maximum of Rs. 2500/-. No compensation was to be paid for the first 10 days of disablement. Special commissioners were appointed for the administration of the Act The Act, however, did not confer the intended relief on account of the general ignorance and the migratory habits of the industrial labourers and also on account of the expensive litigation which is sometimes involved in pushing the employee's claim.

SUBSEQUENT AMENDMENT ACTS.

Acts of 1929 and 1931.

The Compensation Act has been amended in 1929, 1931, 1933. The first Amendment extended the scope of its operation by including workers engaged in winning natural petroleum or natural gas or in occupations involving blasting operations; and provided for the protection and investment of lump sums payable to a woman or persons under legal disability.

The Amendment Act of 1931 brought within the scope of Act workers engaged in the construction of aerial rope-ways.

Lastly, the Amendment Act of 1933 greatly extended the scope of the Act by including workers both in organized and unorganized industries. For example, drivers of private motor cars, divers, keepers of wild animals, plantation workers and even out-door workers in the Indian Posts and Telegraph Departments and certain other classes of workers have been included within the scope of the Act.

The scales of compensation have also been largely increased, the minimum by over 100 p.c. and the maximum by 60 p.c. Thus for adults the maximum amounts of compensation for death and permanent disablement have been raised from Rs. 2500/- and Rs. 3500/- to Rs. 4000/- and Rs. 5000/- respectively.

For minors the amount is the same in the case of death but for permanent disablement the amount has been reduced to Rs. 1200/- only.

It is difficult to discover any reason or justice in the last provision of the new amendment.

Provisions have also been made to ensure better administration of the Act.

INDUSTRIAL DISPUTES.

History of the Industrial Disputes.

Before the Great war, a strike was a rather rare phenomenon in India. In the absence of leadership and organization, the industrial worker found it best to return to his village whenever conditions became intolerable. The Post-war years, however, brought about a complete sea-change. Prices had risen, but wages lagged behind. On the other hand, labour had become comparatively organised and above all, had realised the potentialities of concerted mass action. No wonder, then, that industrial strikes should become almost the order of the day.

Towards the close of 1922, the Post-war boom was definitely over and from 1923 to 1927 prices remained comparatively stable. It is significant that during this period there were very little signs of labour unrest. Since 1928 prices showed a downward trend, and the effort on the part of employers to cut down wages or to retrench their staff, or to rationalise their industry at the expense of labour, was greeted with a spate of strikes notably in the Cotton Mill Industry of Bombay, the Tata works at Jamshedpur and some of the Indian Railways. Recently, there were two big strikes, one in the B. N. Railway and the other in the Jute Mill Industry of Bengal.

Causes of disputes.

According to official statistics, a large majority of the strikes is related to the question of pay or bonus. In other cases, it is generally due to the question of personnel when the demand of the workers is for the re-installment or dismissal of one or more individuals.

Causes, unconnected with the industry, play a much smaller part in strikes than is generally supposed. Political agitators, communist leaders and occasionally unscrupulous men interested in the effect of the strike upon commodities and share markets, have no doubt sometimes played an active part in the organisation of strikes. But as the Labour Commission has observed, "Although workers may have been influenced by persons with nationalist, communist or commercial ends to serve, we believe that there has rarely been a strike of any importance which has not been due, entirely or largely, to economic causes.

Industrial strikes, of greater or lesser intensity, are an usual feature of modern capitalism everywhere and the right to strike is a fundamental right of labour recognised in every democratic country. Nevertheless, one can not assume a complacent attitude towards the frequent occurrence of prolonged strikes in as much as they involve great losses to the labourers, employees and the community at large. Every civilised country should provide itself with machinery both for *preventing* the occurrence of a strike, and where prevention is not possible, for *settling* the dispute as rapidly as possible. In India, so far, practically nothing has been done for prevention, though it is a platitude that prevention is better than cure. As the Labour Commission has observed, an important factor at work in creating industrial unrest in India is the lack of contact which too often exists between employees and employers. In India, it is almost universally true that the management and supervision of industry is in the hands of men not only of a different *class* but also of a different *race* from those of the workers. Thirdly, there is the *language* difficulty which acts as a further bar to mutual understanding between labour and Capital. Lastly, the Managing Agency system

acts as an additional impediment, as the labourers can never deal directly with their employers who control many businesses as at the same time and generally in different places.

Suggested Methods for preventing disputes.

The Labour Commission strongly emphasises the need for establishing closer contact between employers and employees, as that alone can create an atmosphere unfavourable to disputes. The Commission refers to three possible methods ;

(1) Development of healthy trade unions with access to those responsible for the management of an industry ;

(2) Appointment of labour officers whose functions will be to look to the comforts of the workers in every way and to act as an intermediary between employees and employed ; and

(3) Formation of work Committees on the lines of the Whitley Committees in England.

These Committees should serve as a common platform where representatives of the labourers and of their masters should meet on equal terms for the mutual exchange of ideas. The main obstacles to the setting up of such Committees are *first* the reluctance of employers to treat the labourers' representatives on an equal footing, and *secondly*, the fears of the Trade Unions that their importance and strength might be under-mined by such close co-operation with employees. Both these prejudices must be overcome.

Existing Methods for settling disputes.

Such then are the principal methods for the prevention of industrial disputes. We now proceed to discuss the existing machinery for the settlement of industrial disputes.

The well-known methods of settling industrial disputes are

those of *mediation, conciliation,* and *arbitration.* In India, mediation had seldom been resorted to, though the other two machineries have been in existence for sometime. In Ahmedabad, there has been a permanent arbitration board ever since 1920 consisting of one nominee each of the two Associations —one representing labour and the other representing the employers. As Mahatma Gandhi has always been the labour representative, thanks to his dynamic personality, the Ahmedabad Board has been signally successful in its mission. Hence we have no reason to believe that similar experiments will meet with the same amount of success elsewhere. Besides, Ahmedabad is almost unique among the industrial centres, of India in that the employees and the larger proportion of of the workers are more or less akin both in religion and tongue.

The Trade Disputes Act of 1929.

(1) The Act, though principally based on the British Industrial Courts Act, differs from its model in that it does not provide for any standing Industrial Court.

(2) It provides for the setting up of *Courts of Enquiry* or *Boards of Conciliation* to which an industrial dispute might be referred. The Court of Inquiry is to consist either of an independent person or of an independent chairman and such other independent persons as might be appointed A Board of conciliation consists of an independent person or of an independent chairman and of other members who may be either, independent or may represent parties to the dispute. It is the duty of both to endeavour to investigate the dispute *primarily* with a view to its settlement and *secondly* with a view to enlightening the public regarding its merits.

(3) The Act also declares as *illegal* all *sympathetic strikes*

as also all strikes which (a) have any object other than the furtherance of the dispute in the trade or industry concerned, or (b) are designed or calculated to inflict severe, general and prolonged hardship upon the community. Any funds raised or used for such strikes are also illegal.

Merits and demerits of the Act.

(a) A commendable feature of the Act is the *absence of compulsion* both in the matter of the *reference* of disputes to arbitration and in the *enforcement* of the awards of the tribunals. As the Labour Commission has pointed out, if there were compulsory reference of every dispute, the effect on industry would be disastrous, as it would discourage all internal efforts for the preservation of industrial peace. Similarly, compulsory arbitration might deprive labourers of the only means by which they could secure justice in a capitalist regime. Moreover, it is impossible to co-erce large number of men into accepting terms on which they are unwilling to work.

(2) The Labour Commission has criticised the Act as it provides for *ad hoc* tribunals instead of the permanent Courts which have been established in England. A permanent tribunal has the dual advantages of eliminating the delay inevitable in setting up *ad hoc* tribunals and of bringing into existence men experienced in handling industrial disputes. But there is the possible disadvantage, namely, the members of the Tribunal may not enjoy the confidence of the parties to different disputes.

(3) But the most serious defect of the Act is its virtual declaration that strikes in public utility services are illegal. Such a declaration is tantamount to an attack on the fundamental human rights of labourers. No doubt, labourers in

the social security services, such as the supply of water, sanitation, light etc. have a special responsibility. But sudden strikes in these occupations have already been made a criminal offence under the Indian Penal Code. Strikes in public utility services should have been differently treated. Morever, the weakest point is that while the Act restricts the powers of workers to co-erce their employees, it gives in return no assurance that their grievances will receive a hearing, though lock outs have also been declared illegal as a partial protection of workers.

INDUSTRIAL WELFARE.

Meaning of the term.

Welfare work refers to "all efforts which have for their object the improvement of the health, safety and general well-being and the industrial efficiency of the worker." It is inspired at once by humanitarian and selfish motives. In so far as welfare work serves to make the lives of the workers more worth-living, it can be regarded as humanistic. On the other hand, in as much as welfare work tends to make labour more efficient and more contented, it can be regarded as selfish from the wider point of view.

Welfare work has been classified under two heads :

(a) intra-mural, and (b) extra-mural. The first relates to activities *inside* the factory, the second relates to activities *outside* the factory.

The part played by different agencies.

There are principally *four* agencies for welfare work. The employers, the state, humanitarian social service institutions and the employees.

(1) As regards the *employees*, different employees have interpreted their duty in this respect in widely different ways. There are some factories which would compare favourably in lay-out, cleanliness, and general well-being with any factories in the world; there are others in which the welfare of the workers is almost entirely neglected. Fortunately for the majority of the operatives, the larger factories are, on the whole, better than the smaller ones. It is the want of knowledge rather than unwillingness which prevents some factory owners from introducing further improvements.

(2) The state, on its part, has passed some healthy legislations which we have already noticed, though India is still far behind some of the highly civilised countries of the world. For instance, we do not possess in India a *Minimum Wages Act*, an *Unemployment Insurance Act*, a *Sickness Insurance Act*, *Maternity Benefit Act*, a *Labour Housing Act*, a *Compulsory Free Primary Education Act* and so on and so forth. Existing State regulations as regards hours of work are also regarded as unsatisfactory. Indian public men and labour leaders are unanimous in their demand that India should adopt a 48-hour week in view of the exhausting nature of industrial work in a tropical climate like ours. Thus the state has yet to embark upon a bolder and more enterprising labour policy, in order to fulfil its part in industrial welfare.

As regards *social service institutions*, much good work has been done by the Y. M. C. A., the Bombay Social Service League, the Servants of India Society, the Maternity and Infant welfare Association, the Depressed classes Mission Society and several missionary Societies.

Lastly, as regards *employees*, they have practically done little to help themselves, though they can do much by means of co-operation.

Items of welfare work.

The main items of welfare work comprise the following :

(a) **Education.**

(b) **Medical aid**

(c) **Maternity benefits.**

(d) **Recreation.**

(e) **Housing.**

(f) **Co-operative Consumers' societies.**

(g) **Tea-shops and Canteens.**

(h) **Creches for children.**

(i) **Provision of dining sheds,** resting shelters, adequate water supply both for drinking and washing purposes.

(i) As regards *education*, we have already seen that practically nothing has been done to introduce compulsory primary education among the factory operatives and their children. The illiteracy of workers is a great handicap both from the point of view of their efficiency as well as of their proper organisation. Education for labourers should be at once general and technical. General education is necessary for developing a healthy outlook free from the prejudices and superstitions, the narrowness and fanaticism which too often fill the minds of rural labourers who migrate to the factories and mines. Education will also inspire a craving for a higher standard of living which is essential to the success of any scheme of labour uplift. Above all, education will enable the worker to realise the importance of his position in the industrial organization and this will give him greater bargaining strength. Technical education will directly improve the efficiency of the labourer.

(ii) As regards *medical aid*, medical facilities for males have been provided in most of the major factories, though the supply of lady doctors for female operatives is still almost non-existent.

(iii) As regards *maternity benefits*, certain enlightened

employees in the factories, mines and plantations have provided various concessions for their female workers in periods of child-birth, but there is no uniformity of practice in this respect. In 1924 Mr. Joshi introduced a Bill in the Indian Legislative Assembly which provided for the grant of leave six weeks before and after confinement and of maternity allowances by Local Governments from a maternity benefit fund subscribed to by employers. The Bill, however, was rejected on the ground of being too advanced.

In 1929 Bombay passed the *Bombay Maternity Act* which, as amended in 1934, prohibits the employment of women for four weeks following each child-birth. A woman can also claim concessions for four weeks both before and after confinement, provided she had been working in a particular factory for not less than nine months. The Act at present applies only to certain specified cities in the Bombay Presidency.

(iv) As regards *recreation*, provisions for out-door games, cinemas, magic lanterns, dramatic performances etc. are likely to enhance the attractiveness of factory life. These have been done only by a few enlightened employers and some of the Social Service Institutions.

The Problems of Housing and Co-operative societies have already been discussed elsewhere.

As regards tea-shops and canteens, a larger supply of these facilities will do much to cure the drunkenness of labourers.

Lastly, as regards *provision of creches*, dining sheds etc. a a great deal of lee-way has yet to be made up in these directions.

Conclusions

In the foregoing pages we have briefly outlined some of the outstanding problems of industrial labour in India and have,

referred to the various measures by the state and some of the employers for the betterment of the worker's conditions of existence. The impression that our survey conveys to our mind is that India is still lagging far behind England and other advanced countries in her constructive and humanitarian works for the welfare of labourers, and that there is much greater exploitation of labour in Indian Capitalism than in the Capitalism of the West.

The fundamental reasons for such backwardness are to be traced first in the peculiar circumstances of India and secondly in the nature of Capitalism itself.

As long as business is guided by the motive of profit rather than that of service, the state in which middleclass interests predominate must necessarily look at all proposals for the amelioration of labour primarily from the employer's standpoint. The state in India is not only a middleclass state, but also one entrusted with the task of safeguarding foreign vested interests. On the other hand, Indian labour, thanks to its illiteracy, its migratory nature and lower physical stamina, has not been proved to be as efficient as its western counterpart.

Both these reasons account for the relative backwardness which we have just referred to.

Whatever be the explanation from the strictly *business* point of view, it will not be just or wise to neglect the *human* side of the problem. Man is not only the most important agent of production, but also the final goal of all production. A correct system of national economy, therefore, must be judged by a human valuation, *i.e.* valuation in terms of maximum human welfare rather than in terms of maximum wealth. From this standpoint, we can not excuse any form of labour exploitation which may be carried on in the name of economy.

Yet, the world of Indian labour reveals much more exploitation than welfare arrangements. So far the state has done something to remove some of the glaring abuses in organised industries. If we, however, think of labour as a whole, including the various small unorganised industries and, above all, the vast population of landless agricultural workers, we can not help feeling that the state after all has only been tinkering with a vast and complicated issue.

Yet, a bold and sincere effort in this direction is long overdue. The dumb millions of India may not lie for all time in sublime and pathetic contentment, and the prophetic ear may catch the rattle of the distant tumbrils. The spirit of revolt is already in the air, and the Leviathan reveals unmistakable signs of restlessness.

Lastly, Indian politics is also gradually veering towards the Left. Pandit Nehru's vigorous championship of the cause of the weak, the oppressed, the exploited and the downtrodden along with Mahatma Gandhi's known preference for the rural worker and the untouchables, not to speak of incessant Communist propaganda which is carried on behind the scenes on the country-side and within the factories and even in the dark, sub-terranean chambers of the mines,—all these have inspired a new hope and a new faith in the minds of India's disinherited millions.

It is time and more than time that Indian Capitalism, as represented by the state and the employers, should recognise its vast social responsibilities and dedicate itself without any inner reservations to the cause of service, instead of following the blind alley of private profits. Let labour, instead of being a minor interest in the constitution to be represented by a few middleclass labour leaders, be recognised as the dominant partner in the economic and political adventure. That requires

a complete change of heart. Time alone will show whether such a transformation can be effected without any large-scale social up-heaval. It is clear, however, that there can be no final solution of the labour problem in India in the absence of some such drastic transformation.

PART II

CHAPTER XVI

THE NATIONAL DIVIDEND OF INDIA

The National Dividend of a country refers to its aggregate annual income. Marshall defined it in the following terms: "The Labour and Capital of the Country, acting on its natural resources, produce annually a certain net aggregate of Commodities, material and immaterial, including services of all kinds. The limiting word "net" is needed to provide for the using up of raw and half-finished commodities and for the wearing out and depreciation of plant which is involved in production: all such waste must of course be deducted from the gross produce before the true or net income can be found. And net income due on account of foreign investments must be added in. This is the true *net annual income*, or revenue, of the country; or the national dividend."

As the National Dividend is the sole source of payment to all the factors of production, obviously the size of the cake determines the absolute limit of the individual share of the total income. Hence the importance of measuring changes in the size of the National Dividend of a particular country. The measurement must necessarily be in terms of money. But here we must be careful enough to eliminate all changes brought about by pure monetary factors. Subject to this all-important qualification, it is the money-value of the National Income or Dividend which is relevant to our present study.

In India, thanks to the comparatively recent origin of

the Science of Economics, no attempt seems to have been made for measuring our National Dividend in pre-British days. It is only from the second half of the 19th century that various attempts have been made from time to time to assess our National Dividend, and it must be confessed that so far we have been able to achieve only a very limited amount of success in this respect.

The problem of measuring the National Dividend of India has been one of the most baffling issues which faced Indian public men and the Government of India from time to time. Various estimates since the day of Dadabhai Naoraji till to-day have been made of the annual income *per capita* of India, but none of them can be regarded as satisfactory, partly on account of the inadequacy and unreliability of the data, and partly because different writers approached the problem with some amount of bias and prejudice. We shall now briefly summarise the principal arguments and conclusions of different writers on this problem.

(1) The pioneer work of Dadabhai Naoraji.—According to *Dadabhai Naoraji* the *per capita* income for British India in the years 1867—70 came to Rs. 20/- per annum. His method was to include the value of agricultural produce after deducting 6 per cent. for seed, the value of salt, opium, coal, manufactured goods, fish, milk, meat, etc., *as well as* profits of commerce and a definite sum on miscellaneous accounts. The valuation of the different items was not arrived at by means of any definite accurate statistical method but by a sort of intelligent guess-work and sometimes by the *representative method* (*e.g.*, the largest one or two kinds of produce of a pro-

vince representing all its produce). Further, Dadabhaiji excluded the value of services from his computation on the ground that they are ultimately paid for from the material produce and as such their inclusion would involve double counting. Having thus established his proposition Dadabhaiji proceeded to demonstrate that India's bare existence has been rendered possible by drawing upon the capital wealth of the country and not its income, inasmuchas nearly Rs. 34/- was the minimum requirement for the barest subsistence as revealed by the jail dietaries and rations for emigrant coolies. The picture becomes still more gloomy when we remember the great maldistribution of the total national dividend among the different income-groups in British India.

(2) **Digby's estimate.**—The next estimate was that of Lord Crommer and Sir David Barbour which fixed the the average income per capita at Rs. 27/- in 1882. After Barbour came Digby who regarded the Government land-revenue as representing varying percentages of the total outturn. Both Barbour and Digby included agricultural as well as non-agricultural income. According to *Digby's* calculation the per capita income in 1901 (which was a good year) would be Rs. 18-8-11 while in the famine year 1899—1900 would be as low as Rs. 12-6-0.

(3) **Curzon's Answer to Digby.**—Lord Curzon, however, tried to combat Digby's conclusions with the help of his own calculations based on the figures collected for the Famine Commission of 1898, which showed a rise in the agricultural income to Rs. 20/- per head in 1900 compared to Rs. 18/- per head in 1880. He concluded that the average income per head in 1900 was Rs. 30/-

per head compared to Rs. 27/- in 1880 by making a further assumption that non-agricultural income during that period had increased in the same ratio as agricultural income. Thus there was a forward movement as regards national prosperity though the position was not very brilliant or gratifying. Digby, however, refused to accept the validity of Lord Curzon's argument and maintained after a fresh calculation that Rs. 17-4-0 was the average income per head.

(4) **The Estimate of Wadia and Joshi.**—Messrs. Wadia and Joshi estimated the national income of India for the year 1913—14 and concluded the annual income per head to be Rs. 44-5-6. Their calculations included the value of the agricultural productions (after deducting 20 per cent. on account of seed, manure, etc.), the gross value of total mineral output (again subject to 20 per cent. deductions on depreciation account), and the value of various products such as hides and skins, wool and silk, the products of fisheries, the produce of the livestock, etc. From this gross sum they deducted various sums on account of *Home Charges*, interests and profits on foreign capital and remittances of money from India on private account.

(5) Messrs. *Shah and Khambatta* estimated in 1921 the per capita income to be Rs. 67/- only. Their calculations followed the same lines as those of Messrs. Wadia and Joshi with the difference that they made amends for changes in prices as between pre-war and post-war periods.

(6) **The Estimate of Findlay Shirras.**—Then came *Findlay Shirras* whose estimates related to the years 1921—1922. Shirras contended that the proportion of

non-agricultural income to agricultural income had changed considerably on account of the increased industrialisation of the country. He thus fixed the proportion at 40 per cent. though in Shah and Khambatta's estimate it was only 10 per cent., and in that of Wadia and Joshi it was only 30 per cent. Shirras also included the value of services. But he did not make any deductions on account of seeds, etc., in estimating the agricultural income. On this basis Shirras fixed the per capita income at Rs. 107 for 1921 and Rs. 116 for 1922.

(7) The latest estimate is that of Sir Visves-varaya who in his *Planned Economy for India* calculated the per capita income to be Rs. 82/- per head in a normal year and Rs. 55/- per head in a slump year.

Causes of divergencies in Estimate.

The popular opinion that economists like physicians seldom agree in their diagnosis finds nowhere else a stronger support than in the calculations regarding India's *per capita* income which we have just outlined. But the difference in estimates is not entirely due to *subjective* factors.

In the first place the different estimates relate to different *dates* and it is only natural that the economic position of the people will be different in different times.

Secondly, the difference in money-incomes revealed by different estimates may not in reality be equally significant in a comparative study of the economic position of the people in different times on account of changes in the index numbers.

Thirdly, the difference is due to the application of

different methods of computation. For instance, some writers include the value of services, while others exclude it. Again deductions on depreciation account are not always made or made in the same degree.

Fourthly, different writers put different emphasis on the relative importance of the different constituents of the national dividend.

Fifthly, the area of computation is also not the same in all cases, for instance some writers exclude the Native states while others include them.

Lastly, the difference is also due to the fact that the later writers had the advantage of much fuller and more reliable data compared to their earlier predecessors.

Nevertheless, all the different estimates agree in one respect, namely that they all point to the intense poverty of of India. As the Simon Commission has observed, "Even if the most optimistic estimates are accepted the result is that the average income of India per head in 1922 was equivalent, at the prevailing rate of exchange, to less than £8, while the corresponding figure for Great Britain was £95. The contrast remains startling even after allowing for the difference between the range of needs to be satisfied.

Difficulties in defining the concept of National Dividend.

We now proceeded to indicate briefly certain general considerations which should guide our measurement of national dividend as it changes from period to period.

To begin with, economists have not yet been able to give us a precise and manageable definition of the term *National Dividend* itself. The National Dividend, as measured by Professor Marshall and Professor Pigou, measures the volume of current output or

real income, though as a convenient compromise it is defined as that part of the objective income of the Community, including of course, income derived from abroad which can be measured in terms of money. *Secondly*, it depends in some sense on net output i.e., on the net addition to the resources of the community available for consumption or for retention as capital stock, due to the economic activities and sacrifices of the current period after allowing for the wastage of the stock of real capital existing at the commencement of the period. But it is a grave objection to this definition that the community's output of goods and services is a non-homogeneous complex which can not be measured except in certain very special cases.

Thirdly, in order to calculate *net output* we have to find some basis for a quantitative comparison between the new items of equipments produced during the period and the old items which have perished by wastage which is an impossible business when due to technical changes the two equipments are not identical. As Keynes has pointed out, the problem of comparing one real output with another and of calculating net output by setting off new items of equipment against the wastage of old items presents conundrums which permit, one can confidently say, of no solution. Of course, the fact that two incommensurable collections of miscellaneous objects can not in themselves provide the material for a quantitative analysis need not prevent us from making approximate statistical comparisons, depending on some broad element of judgment, rather than of strict calculation, which may possess significance and validity within certain limits. But the proper place for such things should be to satisfy historical or social curiosity, a purpose for which perfect precision is neither usual nor necessary.

We are thus driven to the measuring rod of money, rough and imperfect as it is, though the method of quantitative analysis remains the ideally correct and appropriate method.

Still another fundamental difficulty arises when we are asked to choose between two rival definitions of National Dividend as given by Marshall and Fisher. The former regards it as that part of

the objective income of the community which is *produced* during a particular year, while the latter defines it as what is annually *consumed*. Fisher maintains that the national dividend or income consists solely of services as received by ultimate consumers, whether from their material or from their human environment. In a *stationary* society where annual savings are just equal to the depreciation fund, the inventory of goods and services indicated by the two definitions would be *materially* equivalent, though *formally* different. But in a *progressive* community where the net inflow into the capital lake is greater than the annual outflow on account of depreciation, obsolescence etc., the quantities indicated will *not* be *materially* equivalent.

In a study of measurement of changes in the National flow of consumption income, the method of Fisher is apparently more appropriate. But there are great practical difficulties in this procedure. For if a factory is produced in any particular year, in reckoning the National Dividend of that year, we have to reckon only the money-value of the flow of services rendered by it only on that year, and the aggregate effects of the creation of the factory can not be measured without reference to the national dividend of a long series of years.

Moreover, in a comparative study of economic prosperity of a country over a series of years, Marshall's method is much more appropriate than Fisher's Accordingly, we adopt the fundamental concept of Marshall in preference to that of Fisher.

But though our fundamental idea is quite clear, there are various difficulties in ascertaining the National Dividend of a particular year. We have to be on our guard that we do not include within the net annual income any part of the capital existing at the commencement of the period. For that purpose Marshall and Pigou wanted to maintain capital intact before determining the National Dividend. In an absolute sense, of course, maintenance of capital intact must mean the maintenance in an unaltered physical state of the inventory of things lying in the capital lake. But as it is hardly possible that the new items of capital added to the

lake during a year will be exactly equal to the items taken away, Pigou holds that *certain* contractions in the physical stock of capital will have to be held *compatible* with its maintenance intact. As for instance, destruction of capital by an *earthquake* or by the *king's enemies* should not be considered to be relevant to the problem of maintaining capital intact, in as much as the loss is a loss on *capital account* and not on income account. But ordinary losses, such as loss by fire or storm must be made good in as much as the risks are *normal* and *insurable*. Again, suppose a capital asset is going to last for 10 years. Owing to technical changes, it is possible that the value of the capital asset will be altered from year tc year. In order therefore, to maintain capital intact, we have to add every year 10 per cent. not of the original cost of the equipment nor of its present replacement cost, but of its present value. Though Pigou is here driven to the concept of value and not of physical quantities, he again reverts back to his old conception when he says that reduction in the money-value of certain items in the capital stock brought about by a general rise in the rate of interest, or by the decline in the people's taste or by the creation of a new item of capital equipment,—should not be regarded as relevant to the magnitude of the national dividend.

The above analysis of the implications of the phrase 'maintaining capital intact' as given by Pigou affords a classic instance of the inconsistencies involved in a quantitative analysis of National Dividend. As Keynes has observed in his 'general theory of Employment, Interest and Money,' "To say that the net output to-day is greater, but the price-level lower, than ten years ago or one year ago, is a proposition of a similar character to the statement that Queen Victoria was a better queen but not a happier woman than Queen Elizabeth—a proposition not without meaning and not without interest, but unsuitable as material for the differential calculus. Our precision will be a mock precision if we try to use such partly vague and non-quantitative concepts as the basis of quantitative analysis".

Difficulties in measuring changes in the size of the dividend.

Having thus analysed the concept of National Dividend, we now proceed to deal with certain theoretical niceties involved in measuring changes in the size of the National Dividend. Here too Pigou begins with ideas of quantitative measurement, but has to admit the uncomfortable fact that when the national dividend consists of a number of different sorts of things, the quantities of some of which are liable to increase at the same time that the quantities of others are decreasing, there is no direct means of determining by a physical reference whether the dividend of one period is greater or less than that of another. Accordingly, as between any two periods, the *criterion* of increase which Pigou accepts is that in period II with the tastes and distribution of the purchasing power prevailing in Period I, the money demand for the things that have been added to the dividends exceeds the money demand for the things taken away from it, and the *measure* of increase, from the point of view of Period II is the proportion in which the aggregate money demand for the things contained in the dividend of that period exceeds the aggregate money demand for the things contained in the dividend of Period I.

Unfortunately, however, as Pigou has pointed out, the aggregate money demand for the things contained in the dividend of any

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J. M. Keynes in his latest book, "A General theory of Employment, Interest and Money" has attempted to achieve a new definition of "net income" along different lines. He introduces the concept of what he calls the user cost (designated as U) which is broadly speaking, the excess of the potential value of an equipment (in case it was not actively utilised but just kept intact) over its actual value at the end of a process of production. If A is the aggregate market price of all the commodities sold by an entrepreneur and V is the money-value of the depreciation of the equipment, which is involuntary but not unexpected arising out of anticipated losses, through the lapse of time and normal obsolescence which is sufficiently regular to be foreseen, if not in detail, at least in the large, then the aggregate net income is equal to A—U—V.

period is not a workable conception, as it involves the money-figure that would be obtained by adding together consumer's surpluses, as measured in money, derived from each sort of several commodity contained in the dividend. Thus, the only data that are available are the quantities and prices of various sorts of representative commodities and services and we must be satisfied with them. We further assume that there is no alteration in the state of tastes and distribution of purchasing power in either of the periods. Our criteria of measuring changes in the national dividend being thus determined, we are next confronted with the problem of constructing index numbers which will approximate as closely as possible to the ideally correct measuring instrument. The familiar methods known as the *arithmetical method*, the *geometrical method* and the *harmonic method*, all yield different results, though there is a a fairly close resemblance among them. Professor Fisher imagined that there must be an archetypical average right in an absolute sense towards which all the others are approximating. But this is pure mysticism and does not help us in any way. According to Marshall and Pigou, the *chain method* * is the most appropriate one for measuring changes in the national dividend as between distant years, in the later of which a great number of important commodities may be available that did not exist at all in the earlier ones.

Nevertheless, it must be admitted that if the successive individual comparisons embodied in the *chain* method, each of which

* According to this method, the price-level of 1900 is compared with that of 1901 on the basis of the commodities available in both these years, new commodities introduced and old commodities dropped out during 1901 being ignored; the price-level of 1901 is thus compared with that of 1902, the new commodities of 1901 this time being counted, but these of 1902 ignored; and so on. "Thus we can obtain an instrument by which years, too distant from one another to be effectively compared by any direct process, can be compared by a chain of successive stages. It is as though we were unable to construct any measuring rod capable of maintaining its shape if carried more than 100 miles." (Pigou).

admittedly suffers from a small error, actually suffer from errors in the *same direction*, the *cumulative* error as between distant years may be large. Lastly, even if we ignore the inherent limitations of the chain method there are still further difficulties in the way of our comparison. (a) First the *retail prices* of articles of wide consumption are difficult to ascertain. (b) Moreover, these prices are unsuitable for comparison over a series of years, because the thing priced is apt to contain a *different proportion* of the services of the retailer and of the transporter and therefore to be a different thing at one time from what it is at another. (3) Thirdly, commodities while still called by the same name in different times are continually undergoing changes in character and qualities. (4) *Fourthly*, there are few records of annual output which make our comparison all the more impossible. (5) Lastly, there is the problem of giving due weightage to different commodities in different times.

Application of Economic theory to the Indian Problem.

The above observations made from the stand-point of theoretical economics serve to emphasise the great and almost insuperable difficulties which stand in the way of a correct measurement of the national dividend of India as it has been changing in recent times. Our analysis also underlines the need for more reliable and more exhaustive *Statistics* both of prices and quantities of sample goods and services as the necessary *sine-qua-non* for any successful attempt to measure changes in our national dividend. Of course, the task is a formidable one, the huge size of the country with its huge population mostly illiterate and mostly scattered in half a million villages, makes our task a highly expensive and difficult one. Moreover, in India, thanks to the general ignorance and

apathy of the people, the Government cannot expect that amount of co-operation from private individuals and private associations which in the West is so readily available. Nevertheless, given the necessary will and determination, it is still possible for us to estimate our national dividend in a much more accurate fashion than it has been done so far. In this connection, we shall briefly refer to the scheme for an *economic census of India* published by Dr. Bowley and Mr. Robertson who were invited by the Government of India to give their expert advice on this problem.

Summary of the Bowley-Robertson Report.

(1) The experts recommend the establishment of a permanent *economic staff* consisting of 4 members for the organisation of the work of *economic intelligence*. This staff is to be attached to the *economic committee* of the Governor-General's Executive Council. The Senior Member is to act as secretary to the economic Committee and his duty would be to prepare reports on important economic questions, to organise the supply of current informations of an economic character and to plan ahead as regards fundamental economic enquiries. Of the 3 other members 2 must be trained economists, while a third should be the Director of statistics. Each member should be given perfect freedom for conducting his work. The whole staff should maintain very close contact with high government officials whose duties are primarily technical or administrative. They might also recommend to the economic Committee the *adhoc* appointment of foreign technical experts for specific purposes.

The functions of the Director of statistics shall include

(a) conduct of the population census, every 10 years.

(b) the conduct of the census of production every 5 years.

(c) the co-ordination of Central statistics and

(d) the Co-ordination of Provincial statistics.

For discharging these duties he should be helped by the statistical branch of the existing Department of Commercial Intelligence and Statistics which should be transferred to his control. It is the business of the Director to establish uniformity of classification of statistics in all Government Departments and to furnish statistical information for general purposes. He will also be responsible for the publication of the *statistical abstract.* The Director should also supervise the work of those responsible for the collection of statistics in the different provinces. Finally, the experts recommend the appointment of a *whole-time statistician* in each of the major provinces in India.

The two experts agree that the existing data for the measurement of the national income are hopelessly inadequate. Nevertheless, they tentatively suggest the following items for inclusion or exclusion in any measurement of the national income by the census of production method :

(1) value of the net output of agriculture, mining, industry, etc. at the point of production (care being taken to avoid double counting).

(2) *plus* the value of the services of transport and

mercantile agencies added to domestic goods and imports.

(3) *plus* excises on domestic goods and customs on imported goods.

(4) *minus* the value of exports (F. O. B.) including gold and silver.

(5) *plus* the value of personal services of all sorts.

(6) *plus* the annual rental of dwelling houses (whether own or rented).

(7) *plus* the net increments in the holdings of balances and securities abroad (after deducting similar increments in the home country held by foreign residents).

(8) *plus* the value of agricultural produce at the point of production which is consumed directly by the producer or exchanged by barter.

In as much as some of these requisite data may not be available for a considerable period, the authors recommend the compilation of another estimate of India's national income by means of a summation of individual incomes both for confirming the results arrived at by the census of production method and for correcting certain discrepancies.

The *second method* (i.e. the *census of incomes method*) includes the following items :

(1) the value of all commodities directly produced and directly consumed and of all receipts in kind, at the point of production plus the annual rental value of houses lived in by the owners.

(2) *minus* all interest payments on loans whether for consumption or production.

(3) *plus* the gross money incomes of all individuals

including interest on government loans and pensions of retired Government servants.

(4) *plus* the undistributed profits of companies and the net profits of Government commercial undertakings.

(5) *minus* the interest on war and other non-productive government loans and the net pensions of ex-Government servants.

(6) *plus* receipts from customs, excise, stamp and local rates.

The authors believe that for estimating rural incomes the *census of production method* is more appropriate, while for estimating urban incomes, the *census of income method* is more appropriate. In both the cases, detailed, *sample* inquiries in *selected areas* might at the first instance be more useful than any attempt at exhaustive surveys covering the whole field. For the sake of greater accuracy, the authors also recommend an *intermediate population census*, as the ten-year period may be too long. There might also be a census of production applied to power-using factories and mines to serve as an additional corrective, though the results will, to some extent, over-lap those of the urban and rural surveys. Lastly, there should also be a separate census for plantation areas. The authors conclude that the Native states might also be brought into the picture if they are willing to co-operate.

Measurement of national wealth not practicable.

The experts do not think it possible to estimate correctly the national wealth of India at present. There are two methods for arriving at such estimates, namely, the capitalization of the incomes of all properties, whether

belonging to the individuals or to the public, and secondly, the use of statistics of property changing hands with the occurrence of deaths, taken in conjunction with life tables for ascertaining the total value of property.

(1) As regards the *first method*, capitalization is not possible with regard to some of the most important kinds of individual property such as jewels, ornaments, furniture, etc. and also with regard to some important forms of public property such as roads, irrigation projects, public parks, water works, etc.

(2) *Moreover*, according to Marshall, we must include under national wealth certain free gifts of Nature such as the river-system, the mountains, forests, etc., which can hardly be capitalized at all.

(3) *Lastly*, according to some German writers, the system of Government prevailing in a country as well as the tone of its administration, should also be regarded as important elements of the total national wealth. All these items, however, are absolutely incalculable in terms of money. Hence the first method is not applicable.

As regards the second method, it is all the more impracticable in India owing to the absence of death duties.

Distribution of National Dividend in India.

It is abundantly clear from the above pages that the size of our National Dividend, though it can not be ascertained with any amount of accuracy, is very low compared to that of most civilised countries. This is primarily due to the primitive state of our national economy, the absence of modernisation both in our agriculture

and industry (except a few large-scale industries), the appalling illiteracy of the masses, the hold of unscientific customs and beliefs on the popular mind, the terrific toll of tropical diseases like malaria, kala-azar, etc. and above all, the policy of ruthless Imperialistic exploitation followed by an alien bureaucratic Government for well-high 200 years.

But the low per capita income of India is not the only evil we have been suffering from. If the size of our National Dividend leaves much to be desired, its distribution among the different sections of the community is equally, if not more defective. In all capitalistic countries, the share of the National Dividend going to the masses is proverbially low. But in India, besides the familiar evils of capitalism, we have also to grapple with the evils of British Imperialism with its twin products of princely despotism and absentee land-lordism. The result is that a disproportionately large share of our admittedly low national income goes to fatten our foreign rulers, the Native Princely order, the landed aristocracy of India and a handful of Indian capitalists and business magnates. If we survey the Indian countryside,—and India to-day is overwhelmingly a rural India,—we find a vast peasantry toiling like galley slaves yet living in perpetual sight of the hunger line. In normal years the average peasant barely gets his minimum for subsistence; while in a year of drought or flood he must live on starvation diet or go to the Mahajan for accommodation. The picture in the towns and cities is only a shade brighter. Here too, we find the labourers in the mines and factories working under most inhuman and brutalising conditions for less

than a living wage. The position of the so-called educated middle-class people, particularly of the lower middle class, having regard to their customary standard of living, is little superior. They too are finding it increasingly difficult to make any living at all. Against this dark and sombre back ground, we find a small handful of rulers, land-lords, business magnates both Indian, European, and Public servants (particularly the members of the superior services) living a life of most insensate luxury and extravagance in slavish imitation of the old Moghul nobility. Thus, India to-day exhibits much the same picture of anæmia in the vital parts and apoplexy in the supernumerary organs as did France in 1789 and Russia in 1917. As in France and Russia of those days, the vested interests of the few are the stumbling block that intervenes between the masses and their emancipation. Is it too much to expect that the weapon of Non-violence which Gandhiji has forged for India will achieve for her the same emancipation, both political and economic, which in other countries had to be fought for along more rough and orthodox lines ?

CHAPTER XVII

INDIA'S TRANSPORT SYSTEM

Historical Retrospect.

The importance of a developed transport system can hardly be over-exaggerated in any civilized country. In India, in particular, thanks to her vast distances, her innumerable barriers of forests, deserts and mountain-ranges, the need for easy and up-to-date means of communications is specially great. Throughout the centuries that have gone by, India's poor equipment as regards transport has always played a dominant role in shaping her economic and political development.

Not that India had no transport system of some sort. In the Indo-Gangetic plains, for instance, the great rivers, the Indus, the Ganges and the Brahmaputra with their tributaries have always served as the high-ways of commerce. Besides, Indian rulers from the time of Asoka onwards, sometimes took great interest in developing good Trunk roads for inter-provincial communication. Sher Shah, for instance, is well-known for reviving and developing the Grand Trunk Road connecting Bengal with the distant Punjab. In the desert regions of Sind and Rajputana there were well-marked Caravan routes traversed by camels. There were also Caravan routes connecting India's North-West frontiers with Kabul, Kandahar and even Persia and Central Asia. Means of communication

also existed between Northern India and the Himalayan kingdoms of Nepal, Tibet, Sikkim and Bhutan.

South India was even less favourably situated in the matter of transport than Hindusthan proper. Here the rivers were mostly shallow and non-navigable, while the mountainous nature of the tract prevented the contruction of good roads. It was only in the sea-coast districts along the Eastern and the Western Ghats that easy methods of communication prevailed.

If South India, however, was thus naturally denied facilities for internal communication, it was very advantageously placed for oceanic expansion, thanks to its close proximity to the sea. From very ancient times, South India plied a very lucrative oceanic trade, Kaveripaddinam, Mammallipuram, etc. being the celebrated ports of those days. The Great Indian colonization movement resulting in the establishment of a Greater India in the Indian Ocean, Burma, Malay and Champa (South Annam) also emanated from Indian ports in Bengal, Orissa, Madras and other coastal regions. There was also a land-route across East Bengal and Assam to Burma and beyond.

The internal transport system of India remained virtually unaltered down to the forties of the last century, though the condition of the Trunk roads varied directly with the vigour of the prevailing administration. In the first few decades of the 19th century, in particular, the Indian roads became extremely unsafe specially in the Central Provinces owing to the activities of bands of highwaymen known as *Thugs* and *Pindaries*. It was into such a primitive and chaotic system that Lord Dalhousie wanted to introduce modern methods of transportation.

Railways in India.

The old Guarantee system. (1844-69)—The first proposals for Railway construction were mooted in the forties of the last century. Lord Dalhousie, an ex-president of the Railway Board in England, arrived in India in 1847, full of railway ideas and two years later contracts were signed for the construction of two small railway lines near Calcutta and Bombay with the E. I. R. and the G. I. P. railways respectively. For some years, however, the Government did not arrive at any fixed policy which was defined for the first time in Lord Dalhousie's minute of 1853. The arguments advanced by Lord Dalhousie in favour of his policy of Railway construction may briefly be summarised as follows :

(1) India is full of raw materials like cotton and food-stuffs, themselves capable of improvement, both quantitatively and qualitatively, which England wants, yet these can not be exported on account of lack of transport facilities between the ports and the interior.

(2) Similarly, there is a great demand in India for British and European manufactured goods which also can not be supplied to the interior districts for identical reasons.

(3) To remove this great deficiency, India wants a net-work of railways connecting the ports with the interior.

(4) These Railways, however, must be constructed by private enterprise, not because of the inefficiency of state engineers, but because it is not within the province of the Government to construct and maintain a commercial enterprise like railway construction.

(5) On the other hand, however, the Government must guarantee the interest on the capital that might be invested in Railway construction, as otherwise private capital would dare not embark upon a risky adventure like Railway construction in India.

Thus, began, under official auspices, the so-called *old guarantee system* of Railway construction in India. Following the adoption of this plan, contracts were entered into with eight companies between 1854-60 for constructing and managing railways in different parts of India. The Sepoy Mutiny which revealed the grave defects of the Indian transport system as regards the movement of troops, etc. acted as a further stimulus to the development of Indian railways.

The principal features of the Old Guarantee system may be summarised as follows :

(1) Free grant of land to the Companies.

(2) A guaranteed rate of interest ranging from $4\frac{1}{2}$ to 5% and payable at the rate of 1*s*. 6*d* per rupee.

(3) Utilisation of a half of the profits, whenever they arise, for repaying to the Government any sum previously paid by the latter in fulfilment of its guarantee obligations.

(4) Reservation by the Government of certain powers of supervision over practically every matter of importance except as regards the appointment of staffs,

(5) Option to the Government to purchase the lines after 25 or 50 years at their current capitalised value.

Criticism of the Policy.

The old guarantee system lasted up to 1869 after which it was abandoned in favour of the policy of state construction and state management. Though the system

was responsible for the development of some 4000 miles of railway lines, it has been criticized on the following grounds :

(1) There was bound to be a very heavy burden on the resources of the Government as there was no limit to the amount of capital that might be invested in Railways and as such there was no limit to the obligations of the Government in respect of guarantee of interest.

(2) The Companies concerned had no motive for economy and efficient management because of the Government guarantee of interest.

(3) It is an unproved assumption that without Government guarantee of interest, British capital would have refused to migrate to India as Britain at that time enjoyed an abundance of capital which was seeking outlets for employment in Africa, South America and some other countries. It is incredible that British capital would have persistently neglected India.

(4) At any rate, if guarantee was at all necessary, there is no evidence that there was any absolute necessity for the guarantee of the high rate of interest which was actually offered. The purpose of the Government could as well have been fulfilled with the offer of much lower terms, as subsequent experience proved.

(5) The clause relating to the division of surplus profits on a fifty-fifty basis was unjust as it meant that while in the case of loss the total loss had to be made good by Government, the whole profit, if there was any, would not have been available for wiping out Government losses.

The Second Phase.

State construction and Management. (1869-79)—The highly unsatisfactory financial results of the guarantee system led the Government to experiment for some time (1862-64) with the system of state subsidy based on Railway mileage in place of the old policy of guaranteeing interest. The most important company with which such an arrangement was made was the Oudh and Rohilkhand Company. The Government also made some alterations in the terms of contract with old companies like the G. I. P., whereby it was provided that one-half of the surplus profits would accrue to the Government unconditionally every half year, the Government relinquishing the right to purchase the lines at the end of the first 25 years. But the most far-reaching innovation took place in 1869 when the Government decided to embark upon Railway construction and management entirely on its own authority.

A still more fundamental change in policy was announced by the Secretary of state later on whereby the Government decided to do away with the Guarantee system and to embark on Railway construction on its own account in view of the cheap credit and cheap methods of construction at the Government's disposal. The Government thus decided to borrow annually £2 millions for the purpose of building metre gauge lines which were comparatively cheaper. Unfortunately, however, this policy could not be long pursued on account of various difficulties.

In the first place, strategic consideration required that Railway lines in Sind and the Punjab should be converted

from metre gauge to broad gauge, thus necessitating additional money.

Secondly, the repeated depredations of famines necessitated a more vigorous policy of Railway construction than the Government could pursue owing to its limited means.

Thirdly, the Afghan wars imposed a further heavy strain on the Government's finances.

Lastly, the depreciation in the value of the rupee, following the decline in the value of silver from the seventies onward, had a devastating effect on the Government's finances. Thus, financial difficulties ultimately led the Government to abandon the policy of state construction of Railways. Nevertheless, at the close of this second stage of Railway development, the aggregate Railway mileage had risen to 8,996.

The Third Stage.

The New Guarantee System (1879-1900)— the failure of the policy of direct state construction of Railways led to the adoption of the New Guarantee system. Under this system, the Government entered into fresh contracts with new Companies, notably the Bengal Nagpur and the Madras and Southern Maharatha Railway Companies. The principal features of this system were as follows :—

(1) The new lines to be constructed were declared to be the property of the Secretary of state for India who reserved the right to cancel or alter the terms of the contracts at the end of a specified number of years, say 10 or 25. In case of termination, of course, the Government

would have to repay the capital invested by the Companies at its par value.

(2) Interest was guaranteed on the capital invested by the Companies but at a lower rate, usually at 3½ %.

(3) The Government was to enjoy a much larger share of the profits, usually three-fifths.

Subject to the above conditions, the new lines were to be constructed and managed by the Companies. With the expiry of the contracts under the Old Guarantee system, the Government either purchased and managed some of the lines, as in the case of the Oudh and Rohilkund and the Sind-Punjab Railways, or simply purchased but entrusted the management to the old Companies under revised contracts. (e.g., the E. I. R. and the G. I. P. railway). Similarly, when the contracts with the new guaranteed companies expired, the management was generally retained in their hands though on more favourable terms for the Government, such as reduction in the companies' share-capital, lower rate of interest, higher percentage of profit for the Government, etc.

Such then is the early history of Railway, development in India. As a result of the different policies pursued in different periods, we find a very complicated system of Railway ownership and Railway working in India, varying from the state-owned and state-worked railways to the Company-owned and Company-worked railways, with state-owned and Company worked, and Company-owned and state-worked intervening in between. Broadly speaking, however, most of the old guaranteed lines are state-owned to-day, though the management in some cases is still in the hands of the Companies. Moreover, even

where Company management has been suffered to continue, the control of the Government in all vital matters such as repair, rolling stock, public safety, fixation of rates and fares and of train services and co-ordination of the different railway systems, has been fully retained. This control is exercised partly through the railway Board and partly through a Government Director on the Board of the Companies.

Besides the above Trunk lines, there are also several subsidiary branch lines. For instance, some of the Native States, Hyderabad being the pioneer in this respect, have constructed railway lines in their own territories with the help of a state guarantee of interest. The Government also attempted to encourage the development of feeder lines by branch line companies in 1893 by offering rebates on the gross earnings of the traffic interchanged with the main lines, so that the dividend might rise to 4 %. But in practice a more absolute guarantee or more favourable rebates were found necessary to induce the formation of branch line Companies. The Acworth Committee, however, did not favour such a policy and it recommended direct state construction of feeder lines wherever possible. Accordingly, the Government decided since 1926 to embark upon the direct construction of feeder lines provided a guarantee against loss was given to the Railway Board by the Local Government or the local authorities concerned.

Before concluding this section, we shall now indicate the main land-marks in the construction of railway mileage in India in the present century. Broadly speaking, by 1900 most of the main lines were completed, and between

1900 and 1914, they were connected and enlarged. In 1914, the total railway mileage stood at 35,000 miles of which 26,000 were state-owned, 6000 company owned and 3000 owned by the Native states. In 1930, the total rose up to 41,729 miles, the state owning 31,218 miles and directly managing 18,689 miles. The total mileage has some what risen in recent years. Roughly speaking, about 74 % of the railway mileage in India is at present state-owned but only about 44% is managed by it.

State *vs.* Company Management of Railways.

We have already seen how the policy of the Government of India has wavered between the ideal of Company Construction and that of State Construction of Railways, and how ultimately the latter principle prevailed. Corresponding to the above issue, there has been another issue hotly discussed and debated, namely the problem of Company *vs.* State management.

As the Indian Railways were built in the second half of the 19th century when laissez faire ideas were ruling in England, our British rulers naturally favoured the construction and management of Railways by private Companies, of course, with the help of State assistance. It was only when Company management proved to be extremely uneconomical and expensive that the experiment of direct State Construction and State management was embarked upon, despite the prevalence of laissez-faire theory.

It was, however, not till the appointment of the Acworth Committee on Indian Railways, that the problem of State Railways *vs.* Company-managed Railways

received the fullest amount of discussion. The committee though favouring private management of Railways as a commercial proposition on strictly theoretical grounds, nevertheless recognised that in the peculiar conditions of India, cent per cent private management had never been practicable. The state had to guarantee the interest on the capital invested and as such had to exercise predominant control over the policy pursued by any Railway company. Nor could the situation be appreciably altered by transferring the management to a company with Indian domicile from the hands of the existing British companies. For the state guarantee would still be necessary to evoke the necessary amount of capital, and the credit of the Government of India or of the Secretary of State for India would still be a valuable factor in raising loans whether internal or external at a cheap rate of interest. Hence the alternatives between which India would have to choose were full-fledged state-management and state-controlled private management.

Although on laissez faire grounds, private management, subject to state control and preferably by an Indian Company to satisfy the national sentiments of the public was the best possible arrangement, the Acworth Committee favoured State Management on the following grounds :—

(1) It would put an end to the disastrous division of responsibility which prevails in so many Railways owing to the predominant representation of the Government in their managing Boards. The Government members can easily defeat any policy proposed by the companies, at the same time they do not take any initiative on the ground that it would go against the spirit of private management.

(2) In India at any rate, the state is the best authority for adjusting and reconciling all the divergent and sometimes conflicting intersts which are bound to be affected by the Railway administration. For, we must remember that though Railways are commercial propositions, political considerations play a large part in the determination of railway management.

(a) For example. the existing railway routes have been constructed to facilitate India's foreign trade rather than internal trade. This is just in keeping with the old colonial policy which wanted to reduce India to the status of a market for British manufactured goods and that of a supplier of raw materials and food-stuffs to Great Britain.

(b) *Secondly*, Railway rates have been so adjusted as to facilitate European traders and merchants to the detriment of Indian traders.

(c) *Thirdly*, comforts and amenities of Railway travel have been most lavishly showered upon the first class and the second class passengers, but they have been totally denied to the third class passengers, although the latter are responsible for the largest part of the railway revenues from passenger traffic.

(d) *Lastly*, most of the higher Railway posts, some of which are more or less sinecure in their character, are reserved for Europeans, although equally, if not better, qualified Indians are available for the same.

All these complaints, it is claimed, can best be attended to by the state. Indian management, of course, might remove some of the above grievances of the public, but it can not be expected to do full justice as every private

company must look more to its dividend than to the interest of the country at large.

(3) The state alone can effectively co-ordinate all the different Railway systems within the country, as regards timings, rates and fares, and with an eye upon the prosperity of the country as a whole.

(4) As the capital of the Railways is either supplied or guaranteed by the state, it is only natural that *all* the profits and not a *part* of them should accrue to the state and this is possible only under state management.

(5) Lastly, where the state owns all the capital, the state alone has a stake in the prosperity of railways. Company management in such cases can not be expected to be prudent or economical.

None-the-less, although the case for state management has thus been effectively established, not all Railways in India are now under state management. Moreover, even where the so-called state management exists, India has got practically nothing of the advantages she expected to receive, owing to the composition of the Railway Board to which we shall refer later on.

Separation of Railway Finance from the General Budget.

Another important recommendation of the Acworth Committee is related to the problem of Railway Finance. Hitherto, Railway Finance was included within the general annual Budget of the Government of India. The Committee, however, urged their separation on the following grounds :—

(1) The separation is essential in the interests of the Railways which, being commercial propositions, must necessarily prepare their budgets for a period of several years, the annual general Budget being ill-suited for their purpose. The capital expenditure of Railways might necessitate the unbalancing of the annual budget for a particular year, but this is not strictly possible under the general Budget system.

(2) Secondly, the present inclusion of Railway finance under the general finance is also highly disadvantageous from the standpoint of the Government of India, inasmuchas the non-realisation of Railway profits which are included within the general revenues of the country might completely upset the general budgetary position.

(3) The development of Indian Railways is bound to be fitful and inadequate so long as it is made to depend upon the surplus or deficit in the general Budget.

Thus, the separation of Railway Finance from the general Finance is desirable from the standpoints of both the tax-payer and the Railways.

Railway rates in India and their consequences.

How rates are determined.

The determination of Railway rates is a highly complicated process and no single principle can explain it adequately. It is partly governed by the cost of service principle, *e.g.* a higher rate must be charged in routes passing through areas which are sparsely populated or where the cost of construction of Railway lines is fairly high owing either to

the mountainous nature of the track or to the fact that a large number of costly bridges has to be built. Similarly, the cost of service principle explains why a higher rate is charged for goods travelling shorter distances than for goods travelling longer distances. On the other hand, Railway rates are also determined by the principle of "what the traffic will bear" in view of the element of joint cost in Railway expenses as regard backloading. Even under competition, Railways have got a fairly large amount of discretion in fixing up the rates and fares of different classes of goods and passengers, while under monopoly, Railways can easily exact the maximum out of every class of goods and passengers. The principle of "what the traffic will bear" in this last instance means the "principle of *all* that traffic will bear."

In India, the existing classification of railway rates for different types of goods has been vehemently criticised. It has been said that the foreign interests controlling the Indian railways have taken elaborate pains to hinder all internal traffic for the benefit of foreign trade. The existing railway rates facilitate the movement of raw materials to the ports as well as the movement of foreign manufactured goods into the hinterland.

Secondly, Railway rates are also held responsible for the congestion of industries in a few centres, generally near the ports. This, in its turn, is largely responsible for the serious labour difficulties experienced by Indian industries.

Thirdly, The "block rates system" which tends to prevent traffic from passing on to a rival line has been

criticized for leading to an artificial diversion of traffic inconvenient to industry and trade.

Fourthly, Railways are also charged with having put up an unfair competition with water transport agencies.

And *lastly*, it has been observed that Indian Railway rates have failed to give that impetus to the development of the national industries including agriculture which is readily given in other countries like the U.S.A., Germany, Japan, etc.

For all these reasons, both the Fiscal Commission and the Industrial Commission recommended a re-orientation of Indian railway rates policy in the interests of Indian industry and trade. The Industrial Commission, for instance, condemned the present policy of favouring traffic to and from the ports. It also condemned the *block rates* system and recommended that consignments travelling over more than one line should be charged a single sum based on the total distance. The Fiscal Commission was in favour of preferential railway rates to young Indian industries. The Agricultural Commission also recommended a closer co-operation between the Railway authorities and the Agricultural Departments with a view to the grant of concession rates on the transport of fertilizers, fuel, fodder, milch cattle, agricultural implements, etc.

Before concluding this section, we might add that Railways do not enjoy plenary powers as regards the determination of railway rates. For instance, the Government have always laid down the maxima and the minima of rates as well as prescribed a general classification of goods. But the Railway authorities have nevertheless enjoyed a large

measure of discretionary powers within those wide limits. Lastly, following the recommendation of the Acworth Committee, a Rates Advisory Committee consisting of a president and two members representing the Commercial interests and the Railways respectively, has been appointed since 1926 to investigate all legitimate complaints arising out of particular railway rates.

Constitution and functions of the Railway Board.

The Railway Board was created in 1905 in order to exercise Government control over company-managed Railways with regard to matters like the standard of repairs, rolling stock, public safety, co-ordination of the Railway system, train services, rates and fares, etc. It consisted of one president and two members who were established at the head of the Railway system under the Department of commerce and industry.

With the breakdown of the Railway system, however, during the war, it was realised that the Railway Board as it was constituted, was not able to take the initiative in laying down Railway policy, and that it failed to exercise effective control over the Railway administration, as it was over-loaded with routine and handicapped by ignorance of local conditions.

The Acworth committee's recommendations.

The problem of reconstruction of the Railway Board, therefore, was referred to an expert committee presided over by the late Sir William Acworth.

The Acworth committee recommended that the Railway Board in order to be a satisfactory agency

through which the Government of India could exercise an effective supervision over the whole Railway system in the country, should consist of a chief commissioner, a financial Commissioner and three members in charge of the three territorial divisions into which the Indian Railway system was to be divided. The actual plan, however, according to which the Railway Board was ultimately re-organised differed from Sir William Acworth's recommendation only in one vital respect, namely, that the three commissioners instead of being in charge of different territorial divisions have their work divided on the basis of subjects. One member is to deal with *technical subjects*, another with *general administration, personnel* and *traffic subject*, while a third member was appointed for the management of labour questions. Since 1931,—32, howeve, rowing to financial stringency, certain superior appointments have not been filled. At present, the Railway Board consists of the chief Commissioner, the financial Commissioner, one member, four directors, five deputy directors, one secretary and one assistant secretary, there being only three members of the Railway Board proper.

Statutory Railway Board.

The Government of India Act of 1935 contains provisions for the constitution of a statutory Railway Board, free from all political influence, which is to be the chief executive authority in respect of the regulation, construction, maintenance, and operation of railways. While it is recognised that the federal government and the federal legislature should exercise a general control

over Railway policy, the actual administration of Railways in India should be free from all political influence as Railways are business propositions and as such should be governed by business principles. Hence the necessity of a statutory Railway Board.

(1) Not less than $\frac{3}{7}$th of the members of the Statutory Railway authorities are to be persons appointed by the Governor-General *in his discretion*, who is also to appoint one of the members as President.

(2) That Authority is to establish, maintain and control a fund (to be called the *Railway fund*) and monies received by the Authority, whether on revenue or on capital account in the discharge of their functions, and all monies provided, whether on revenue account or on capital account, out of the revenues of the Federation to enable them to discharge those functions, shall be paid into that fund, and all expenditure required for the discharge of their functions shall be defrayed out of that fund.

(3) The Governor-General may, from time to time, appoint a *Railway rates Committee* to give advice to the Authority in connection with any dispute between persons using or desiring to use a Railway, and the Authority as to rates or traffic facility, which he may require the Authority to refer to the committee.

(4) A bill or amendment making provisions for regulating rates or fares to be charged on any railway, shall not be introduced or moved in either chamber of the Federal Legislature except on the recommendation of the Governor-General.

(5) It shall be the duty of the Authority and of every

federated state so to exercise their power in relation to the Railways with which they are respectively concerned as to afford mutual traffic facility and to avoid unfair discrimination, any complaint in this respect either by the Authority against a federated state, or by a federated state against the Authority is to be referred to and determined by a Railway Tribunal.

(6) The said *Railway Tribunal* shall consist of a President and two other persons to be selected to act in each case by the Governor-General in his discretion from a Panel of eight persons appointed by him in his discretion, being persons with Railway, administration or business experience.

(7) The President of the Railway Tribunal shall be such one of the judges of the Federal Court as may be appointed for the purpose by the Governor-General in his discretion and shall hold office for not less than 5 years and shall be eligible for reappointment for a further period not exceeding 5 years.

(8) An appeal shall lie to the Federal Court from any decision of the Railway Tribunal on a question of law but no appeal shall lie from a decision of the Federal Court on any such appeal.

(9) The remuneration of the members of the Railway Tribunal other than the President as well as the administrative expenses of the Railway Tribunal shall be charged on the revenues of the Federation, the former being determined by the Governor-General *in his discretion*, the latter being determined by the Governor-General *in his individual judgment*.

(10) If a dispute arises under contracts made by or

on behalf of the Secretary of State-in-Council between a Railway Company and either the Authority or the Federal Government, and if the matter in dispute is of such a nature that under the contract the company might require it to be submitted to arbitration, the dispute shall be deemed to have arisen between the Company and the Secretary of State and any award made in an arbitration shall be binding on the Federal Government and the Authority and any sum by which the Secretary of State may become liable or may so agree to pay by way of debt, damage or cost, and any costs or expenses incurred by him in connection with the matter shall be paid out of the revenues of the Federation and shall be charged on these revenues but shall be a debt due to the Federation from the Authority.

Concluding observations.

It is clear from the above provisions regarding the constitution and functions of the proposed statutory Railway Authority, that while the Indian tax-payer shall continue to shoulder the financial obligation of the Indian Railways, he can apparently expect very little help from them for the reconstruction of the country's economic life.

The Federal Legislature might lay down any policy it likes, but as the execution of the same lies with the Statutory Authority which, in all probability, will be a packed body of foreign vested interests, we can hardly expect the Indian Railways to play that role in India's economic regeneration which we find in countries like U.S.A., Germany and Japan.

We have already seen how the Indian Railways were created in pursuance of the old colonial policy in order to convert India into a market for British manufactured goods and a source of raw materials for Great Britain. That policy was fulfilled, partly by the nature of the Railway routes, and partly by the classification of Railway rates applicable to different classes of Indian goods. It was earnestly hoped that with the coming of Central responsibility the Indian Railways might be converted into engines of economic betterment for India. Once more, however, the foreign vested interests which dictate British policy in India have succeeded in clipping the wings of Indian Nationalism even before they are fully fledged so that the new political regime in India might not affect in the least their time-honoured closely entrenched position.

Viewed in this light the provisions in the New Constitution relating to the Safeguards and Commercial Discriminations, the creation of an independent Reserve Bank with sole control over currency, exchange and credit, and the so-called Statutory Railway Authority,—all seem to be so many integral parts of a well-laid and well-concerted conspiracy of British commercial interests to thwart for all time India's economic aspirations and to hold the Indian people in perpetual iron-grip to the chariot-wheels of British economic imperialism. That the so-called independence from political influence is little more than a camouflage for concealing the well-known fact of absolute dependence upon Clive street and the city of London, will deceive no one.

Economic effects of Railways.

Railways as a means of annihilating distance on a large scale have naturally revolutionised every aspect of human life social, political, cultural as well as economic. Socially, they have brought together peoples with divergent languages, traditions and customs and have thus paved the way for the progressive unification of mankind. Politically, they have rendered possible the formation of Governments embracing an ever-increasing number of men and women. Culturally, they have, by bringing together divergent cultures and civilisations, promoted the cause of inter-provincial, if not also of inter-national cultural fellowship. But it is their economic effects particularly in India which are most important for our present study.

As we have already observed, in India Railways were originally set up partly for administrative convenience but mainly to help British trade with India. Although that original purpose has been more than fulfilled, Railways have not failed to produce many beneficial effects, however, unintended.

The credit side.

In the first place, Railways have done much to mitigate the horrors of famine. Formerly when famine broke out in a particular region owing to drought or excessive flood, there was no means of adequate succour to the affected people. But now, thanks to Railways, food and other requirements can easily be sent to the devastated areas if there is money to purchase them. Thus, Railways have transformed the nature of famine. Famine to-day means the famine of *money* rather than the famine of *food*.

Secondly, Railways by transferring consumable commodities from places where they are abundant to places where they are scarce have helped much to bring about an equalisation of prices in the different parts of the country.

Thirdly, Railways have also helped to transfer population from highly-congested areas to areas which are sparsely populated.

Fourthly, Railways have developed many new towns and cities which have greatly contributed to the modernisation of India.

Fifthly, Railways have transformed agriculture from the old *self-sufficient* state to its present *commercial* nature. Thanks to Railways, the Indian ryot can now get a better price for his products as he has got an access to the world-market in the place of the old local rural customers. Moreover, various new commercial crops like tea and jute could not have come into existence but for railways.

Sixthly, Railways have given rise to various forest industries like timbering, etc.

Seventhly, Railways have stimulated the growth of large-scale industrialism in India. Thanks to Railway transport facilities, it is possible for labour, raw materials, power resources and machinery to be concentrated in convenient places for industrial purposes.

Lastly, Railways have also helped much to increase the revenues of the Government, both *directly* because Railways have got to share their profits with the Government, and *indirectly* because Railways by increasing the wealth of the country, have not failed to increase the taxable capacity of the people.

In short, Railways have been the greatest single agency for the partial industrial revolution which has already taken place in India.

Though Railways have conferred great economic boon on the country, they have not been an unmixed blessing. In fact, the immediate result of the opening of Railway lines was most disastrous, as it was, indeed, intended by our British rulers.

The debit side.

The competition with British machinery products which Railways brought into existence proved fatal to most of the old Indian well-known handicrafts. The destruction of the cottage industries was followed by a virtual denundation of the country-side owing to the opening of new industrial centres controlled by foreigners which offered employments to the rural artisans, now thrown out of employment.

Secondly, Railways by obstructing the natural drainage of the country have in many places been responsible for water-logging, which in its turn, has served as a breeding place for malarial mosquito.

Thirdly, Railways have hampered the development of indigenous large-scale industries by facilitating the export of raw materials out of the country.

Fourthly, if Railways have helped the economic utilisation of forests. they have also been responsible for a reckless destruction of Indian forests which has affected India's economic life in various ways.

Lastly, Railways have greatly helped to nourish and entrench foreign vested interests in India which, as we

have already seen, present the greatest stumbling block on the way to India's economic and political emancipation.

Conclusions.

We must observe, however, that the demerits of Railways are not entirely due to the construction of Railways as such. They are rather due to the particular *manner* in which Railway lines were built up in India. Some of the hardships noted above are, of course, inevitable in a period of great economic transition, but we can easily make bold to say that if the development of Indian Railways took place on strictly national lines, India would have been spared of much of the sufferings whether temporary or permanent which Railways have brought in their train.

Necessity of further Railway Devolopment.

Although the tolal Railway mileage in India stood at 46910 in March 1934, having regard to the total requirements of the country, we require a very considerable further increase of Railway lines. While Europe (excluding Russia) covers 1660000 square miles, and has 190000 miles of Railways, India covers 1803000 square miles and has but 46910 miles of Railways. Judged by the standard of population, India's Railway equipment appears to be poorer still. Where as per every Rail-mile, Canada has got 222 inhabitants, South Africa 605, Australia and New Zealand 238 and Argentine 376, India has got 7894 inhabitants per Rail-mile. Of course, we must remember that transport requirements in India may be supplied in many places more effectively by water-ways and mechanised Road

transport and as such we do not envisage any indefinite increase of Railway construction in India to the exclusion of alternative transport agencies. As a matter of fact, most of the trunk lines have already been constructed. In future, Railway development must take the shape of branch and feeder lines. Moreover, care should be taken to raise the necessary amount of money in India and also to build up a Railway industry in India, as it is extremely dangerous for India to depend always upon foreign supplies either for construction or repair.

Road Transport.

The existing situation.

We have already referred to the unsatisfactory state of India's roads in the early days of the John Company. The East India Company, being a commercial corporation, naturally did not take any interest in the development of Indian roads. The few roads that existed were placed in charge of Provincial Military Boards.

It was Lord Dalhousie who first initiated a vigorous road policy in India and set up a Central Public Works Department supplemented later on by similar Provincial Departments. Moreover, the Railway policy of Lord Dalhousie necessitated the formulation of a complementary road policy. Nevertheless, the development of roads was bound to suffer owing to the Government's stake in the prosperity of Indian Railways.

At present, there exist in India four great trunk roads stretching across the country connecting (1) Calcutta with Khyber, (2) Calcutta with Madras, (3) Bombay with

Madras and (4) Bombay with Delhi. Of these, the first is the most famous and is known as the Grand Trunk Road, the road *per excellence* for Moghul armies in the palmy days of the Timurid Empire.

These four main roads account for about 5,000 out of the nearly 80,000 miles of metalled roads in British India. All these main roads are associated with a large number of feeder roads, both metalled and unmetalled. The total mileage of *Kacha* roads in British India stood at 190,534 miles in 1932-33. The state of roads is most unsatisfactory in desert regions like Sind, Rajputana and parts of the Punjab, as also in the river estuaries of Bengal and Orissa. South India is comparatively better served by roads compared to North India.

It is clear from the above account that for a country with continental dimensions like India, the existing total road mileage is extremely meagre. The seriousness of the situation will be still more apparent, if we just remember that in the rainy season, or during floods, some of the roads referred to above, become impassable. Even under normal circumstances, many villages are practically inaccessible even by bullock carts, not to speak of mechanised transport. The extent of India's backwardness as regards road equipment is easily realised if we just remember that whereas in the U. S. A. there are 25,00 miles of road per every 100,000 of population, in India there are only 84 miles. The comparison with the U. S. A. is all the more significant, as that country has got the closest resemblance to India both as regards dimensions and variety of climatic regions, although the density of population in India is

much higher, being 240 per sq. mile, while that of the U. S. A. is 31·5.

Lastly, India suffers at present not only from a paucity of good roads but also from a gradual deterioration of many of the existing roads, the maintenance of which is entrusted to local bodies with very inadequate resources.

The need for a new road policy.

The rapid extension of motor traffic in India in recent times and the obvious facilities offered by mechanised road-transport have led to a growing realisation on the part of the Central and Provincial Governments of the necessity of a comprehensive road programme to co-ordinate local programmes and evolve common policy. Road Boards have already been established in Bombay Madras, the Punjab and the United Provinces which have got mainly advisory functions. In 1927 the Road Development Committee was appointed by the Government of India with Mr. Jayakar as President. That committee recognised the fundamental fact that the financial capacity of the Local Government was not fully up to the task of road-development in India and as such the Central Government should finance a part of the development programme. The case for such Central aid was all the more strong, if we could only remember that the Central revenues benefit much from the development of roads not only through enhanced railway receipts, but also through customs and excise receipts from motors and motor-spirit.

For the purpose of road development, the committee made the following recommendations.

(1) Additional taxation should be imposed on motor cars and motor spirits and the proceeds should be spent on road-development.

(2) There should be license fees for vehicles plying for hire, the proceeds of which should also be spent on road-development.

(3) With a view to reducing the burden on local bodies and enabling them to devote more attention to feeder-roads, there should be a re-classification of roads in order to transfer some of the *local* roads to the category of *arterial* roads.

(4) More liberal financial assistance should be forthcoming from Provincial funds to the local bodies.

(5) Railways also should be made to contribute towards the construction and maintenance of feeder-roads, as they are directly benefited by them.

(6) Lastly, there should be no levy of road-tolls on any traffic, except tolls on bridges.

The Royal Commission on Indian agriculture expressed the opinion that the policy of road-development could be much better executed if, instead of depending entirely on current revenues, loans were raised for financing road-programmes. The Road Committee, however, while leaving the decision to raise loans to the discretion of the different Local Governments, condemned large schemes of road-expansion financed by loans on the ground that the Provincial revenue might be mortgaged for long periods for the service of such loans at the expense of other equally important departments. In their opinion, loans should be

for *short periods only* and only for *productive* purposes. In particular, construction from loans should preferably be confined to the more permanent parts of a road project, such as a bridge, which have got a more or less calculable longevity and whose cost of maintenance is small.

The Road Committee did not favour reliance on a Central Road Board with executive powers administering a separate road-fund, or the creation of a Central Road Department for giving effect to this new road-programme. In their opinion, the task of co-ordination could best be discharged by a periodical Road-Conference of representatives of the Central and Local Governments. They, however, recommended the appointment of a Road Engineer to the Government of India who was to act as a secretary to the Road-Conference. *Lastly*, the Committee recommended the constitution of a Central Communications Department to ensure a co-ordinated policy in respect of the development of roads and railways.

Government of India's response.

Following the recommendation of the Road Committee, the Indian Finance Act introduced an increase in import and excise duties on motor-spirit from -/4/- to -/6/- per gallon which yielded in the first year an additional revenue of Rs. 94 lakhs.

In September 1929 the following *convention* was adopted by an official resolution passed by the Indian Legislative Assembly, the principal features of which may be summarised as follows.

(1) To ensure some *continuity* in road-programmes

the increased duties on motor-spirits are to be maintained for a period of 5 years in the first instance.

(2) The proceeds of the additional duties are to be spent on road-development and as such should be credited to a separate *road-development account.*

(3) The annual grant shall be divided as follows:—Ten per cent shall be retained by the Government of India *as reserve* for 2 years, out of which special grants might be made for projects beyond the resources of the local Governments or for those that concerned more than one province or state, or for a bridge over a river on a Provincial or state boundary. Out of the remainder, an apportionment shall be made among the provinces in the ratio which the consumption of petrol in each province bears to the total consumption in India according to the preceding calendar year. The balance is to be allotted as a lumpsum to the Government of India.

(4) Grants are to be made to each Province for expenditure on such schemes as are approved of by the Governor-General-in-Council with the advice of the Standing Committee for Roads.

(5) A Standing Committee for roads is to be constituted every year, consisting of certain elected and nominated members of the Indian Legislatures with the chairmanship of the member of the Governor-General's Executive Council in charge of the Road Department.

(6) This Committee is to advise the Governor-General-in-Council in all matters relating to roads including road-research.

(7) All proposals for expenditure from the annual grant, or its accumulated balance, shall be submitted for

approval to the Standing Committee for Roads, sitting as Finance Sub-committee.

Rail-Road Competition.

With this brief survey of the development of railway and road-transport in India, we now proceed to discuss the perplexing problem of rail-road competition. Every where in the modern world railway-transport is suffering to a greater or lesser extent from competition with motor-transport. Hence, the problem is not in any sense peculiar to India.

In a sense, and over a large part of the field, roads and rails are complementary to each other, the former carrying goods and passengers from the interior to the latter for long distance travel. They can, however, be and, indeed, they are to some extent, competitive, where for instance, roads and railways run parallel to each other. In such cases, a part of the traffic is naturally diverted from the rails to the roads owing to the greater cheapness and greater convenience offered by motorised transport. In recent years, this form of competition has assumed increasingly serious proportions and as such a great deal of mutual bitterness has been engendered between the rival vested interests. Hence, the talk of co-ordination of the two rival forms of transport of which we have heard so much in recent years.

The term, 'co-ordination' is a much-abused term. Railways, talking of co-ordination, were mainly thinking of the railway-control of road, while road-transport companies, talking about co-ordination, were mainly thinking of their plan of exercising unrestricted freedom

to undercut the railways and of complaining loudly against the alleged iniquities of road-taxation. Co-ordination, however, properly so-called, should be defined as the working together of the different forms of transport services in such a way that each performs that part of the work for which it is best suited, all the time in the interests of the passenger public and the trade, industry and commerce of the country. Coordination thus implies three things, (1) The economic allocation of functions as between different means of transportation: (2) the formation and establishment of well-organised joint services: and (3) the elimination of competitive waste.

Methods of Co-ordination

Co-ordination can be attained by the following methods :—

(a) *Unrestricted free competition* or

(b) *Voluntary intercarrier arrangement and agreement*, or

(c) *State regulation*, or

(d) *Complete unification of different means of transportation* under one management, or

(e) *A combination of all those methods.*

(a) Of the different methods referred to above, the first one should be summarily dismissed on the ground of the inevitable waste of social resources involved in the process. Even assuming that competition can ultimately establish a system of transport which is best in the public interest, there can be no gain-saying the fact of duplication of transport agencies in the short period.

(b) The method of voluntary intercarrier agreement

is in many respects an ideal one, and should be attempted first. It involves the setting up of a standing committee consisting of an equal number of representatives of the railway and road companies which shall consider and recommend measures by which the services of both can be co-ordinated in the interests of the public. These measures will include among others (1) The running of road services to and from any railway station within the area and (2) the provision of through facilities for railway and motor passengers who are to travel partly by rail and partly by road.

The committee should decide whether any proposed road service in its area will be in direct competition with the railway company ; it should also have the right to determine the fares which should be charged by the railway and road companies respectively. Similarly, the Railway company should not be allowed to operate within the area granted to the Road Company by agreement, nor will the Road Company acquire any interest in any road undertaking which is in direct competition with any transpoit service of the Railway Company. In practice, however, the voluntary agreement method has not been very successful. The greatest stumbling block, at least in England, has been excessive railway pressure on Road Companies. Moreover even where agreements are arrived at, because of their voluntary nature, they may not be lasting. The Road Companies will ever have the temptation to challenge the Railways especially as regards short-distance traffic. Hence the voluntary agreement method may be at best a temporary arrangement and wherever it may be adopted, it should be replaced by a

compulsory legislation. Care, however, should be taken to safeguard adequately the interests of the Road Companies before such legislations are passed.

Unification of all the means of transport might take place either as a result of unrestricted competition or on the application of the principle of state socialism. The first alternative involves a painful process, while the second alternative necessitates a radical transformation of the political outlook of the people. Hence the method of unification does not appear to be very promising at the present juncture.

Coordination involves, in the first place, the setting up of an adequate co-ordinating machinery. Dealing with the problem of machinery, the Mitchell-Kirkness Committee suggested the creation of a central advisory Board of communications with affiliated Provincial Boards of communications and divisional Committees. The Committee, however, was not in favour of the establishment of a permanent whole-time body like the Traffic commissioners in Great Britain, where the country has been divided into thirteen areas for purposes of control.

We do not think, however, that *ad hoc* advisory committees can successfully tackle the problem of Co-ordination, especially when Railways are in the charge of the central government, while Roads are predominantly a provincial concern. We agree with the suggestion of Mr. S. K. Guha that a permanently constituted authority of the type of the Inter-states commerce commission in the U.S.A., with legal authoritative powers of control in both inter-provincial and intra-provincial transport matters, and independent of political influence whether

from the central or from the provincial governments, would be necessary for purposes of securing proper Co-ordination. Such an Authority would be essential even if Roads and Railways are brought under complete and unified state control. The fundamental fact that the interests of the different means of transport authorities are far from being coincident makes an impartial. judicially-minded, independent Co-ordinating Authority indispensable.

Constitution and functions of the Co-ordinating Authority.

The Co-ordinating Authority should have a President of the rank of a High Court judge. One of the members should be a competent transport economist, while the other 2 or 3 members should represent the rival transport interests.

The functions to be discharged by such an Authority are, indeed, very far-reaching. The Authority must control road transport by laying down license regulations, providing time-tables where necessary, securing reasonable fares, granting monopolies when desirable, avoiding parallel and duplicate services, determining proper 'zones' of competition, and advising the Government with regard to necessary legislations for purposes of co-ordination. It should also have the right to see whether the Railways are doing their best to serve the public, especially the poor Indian passengers, by offering cheap fares, reasonable comforts, and proper transport facilities. In short, the Authority must make genuine attempts to remove all unfair and

wasteful competition between the railway and the road companies without standing in the way of the natural development of the latter. India requires more and better rails and more and better roads. The Authority we envisage will try to secure both with the least amount of friction and with the least amount of waste.

FURTHER NOTES ON RAIL-ROAD COMPETITION.

The Railway Case against Road Companies.

Railways claim that they represent public vested interests, with over Rs. 800 crores already invested in them, and that they are essential for long distance, heavy and bulky traffic which can not be expected to be properly handled by the road companies.

Railways are suffering much owing to a diversion of a large part of the short traffic, both as regards passengers and goods, wherever rails and roads are situated parallel to each other. And Railways claim that this competition is unfair on the following grounds :—

I. (a) Railways have got to publish their rates and fares in advance, while there is no such corresponding obligation on the road companies. This enables the latter to under-cut the former.

(b) Railways have got to accept all kinds of traffic for which facilities exist, while road companies can refuse or pick and choose between different kinds of traffic offered. This obligation necessitates the carriage of uneconomical loads and the haulage of half-empty wagons.

(c) Railways can not offer discriminating facilities to individual passengers or goods consignments which Road companies can, thereby taking away the cream of the Railway traffic.

(d) Railways have to obey all sorts of regulations as regards hours of work and the physical fitness of their staff, maxima and minima of rates and fares, compensation for damage or accidents etc., while road companies are practically exempt from all such restrictions. There is hardly any such effective control over road

companies. The motor buses are indeed notorious for their over-crowding, irregular startings, irregular arrivals, accidents for which no compensation is paid, and rudeness towards passengers.

(e) Again, while Railways Companies have to meet the cost of construction and maintenance of track, the cost of the rolling stock, and the cost of the additional restrictions for the safety and convenience of the public, road transport is almost free in these respects except for the vehicles and a part of the cost of maintenance of the roads.

(f) Lastly, Railways have to operate an adequate and a fixed number of services, no matter whether there are passengers or not. but Road companies are comperatively free in this respect.

The Case for the Road Companies.

(a) If Road companies have come into existence and partly at the Railway's expense, it is because of the superior service they can offer and as such they should not be curbed or restricted. Compared to Railways, the Road companies are very small concerns and as such they rather deserve protection at the hand of the state.

(b) It is no crime of the Road companies if their overhead costs as well as operating expenses are low. On the other hand, they more than pay for the maintenance of roads as they contribute about Rs. 8·30 crores in Central, Provincial, and Local taxes and fees of which only Re. 1 crore is devoted to the Central Road Development Account.

(c) Roads benefit the Government officers, both civil and military, the surrounding places, agriculturists, mining and forest interests, other road-users such as bullock-carts, cyclists and pedestrians, and last but not the least, the Railways both by bringing traffic to them from the interior and by necessitating the Railway carriage of petrol and other road-materials.

(d) If Road companies thus help the state and the community in so many ways, they fail to understand why they should submit to such grinding taxation which has been estimated by the Mitchell Kirkness committee as varying between 16 to 27% of the total

working expenses, rising to as much as 40% in the case of Madras owing to exceptionally heavy local taxation there. Even a higher scale of taxation might be acceptable to the Road companies, provided it was a taxation *for* transport, and not *on* transport, as it appears to be at present to a large extent. And lastly, Road companies can not naturally agree to bear the entire burden of road-maintenance, when there are obviously so many other beneficiaries, both direct and indirect.

(e) Road companies also deny the right of the Railways to operate rival bus services on their own account to put out of business the public companies by reck-less rate-cutting, which is possible because of their vast financial strength.

Water Transport

Before the era of Railways, water transpost played a very important part in India. Even now the part played by water-ways in the carriage of bulky commodities within India is by no means negligible. The reason is that water-transport is much less expensive than transport by roads and rails except in the case of artificial navigable canals. Water-ways in India, however, have suffered much owing to the hostility of the railways.

Water-transport can be classified under three heads :

(a) Oceanic, (b) Inland (c) Coastal. Of these, oceanic transport has enjoyed the largest expansion in modern times. Although, India suffers from the absence of an indented coast line, and has very few natural harbours, her central position between the Old and the New Worlds equips her for a very flourishing oceanic trade. The total value of the sea-borne trade of India in merchandise and treasure was estimated at Rs. 646·19 crores in 1928-9. Five-sixth of this trade is concentrated

in the five principal ports of India and Burma namely Karachi, Bombay, Rangoon, Madras and Calcutta; and about 12 million tons per year is carried, but the share of the Indians in oceanic trade is about 2%. As regards *inland* navigation it is generally confined to the great Hindusthan rivers, namely the Ganges, the Brahmaputra and the Indus. The Ganges is navigable as high as Cawnpore, although competition with Railways has greatly affected its traffic. The Indus is navigable as far as Dehra Ismail Khan in the North West Frontier Province, 800 miles inland. The Brahmaputra is navigable by steamer as high as Dibrugarh. Some of the tributaries of these rivers are also navigable at least for a part of the year.

The Deccan rivers, however, are not so well-adapted for steam navigation. At best they are navigable for a part of the year. Only the Mahanadi, the Godabari and the Krishna are navigable in their upper reaches, but the traffic on them is rather slight.

Inland navigation was largely resorted to in the old days and there was a considerable volume of river traffic in the time of the Mauryan and the Moghul empires.

At one time there was a good deal of agitation in favour of navigable canals. As early as 1872 Sir Arthur Cotton placed a very ambitious scheme of steam-navigation before a Parliamentary Committee whose estimated capital cost was £ 30,000,000. The scheme, however, was not accepted, partly because of the heavy expenditure it entailed, partly because of the Englishman's distrust of the value of canals and partly because of the opposition by Railway interests. For some time, while Railways

were a losing concern, there was some enthusiasm for navigation which, however vanished away with the emergence of Railway profits in the beginning of the present century. The case for steam navigation has been still further weakened by the exigencies of various irrigation projects which account for a large quantity of river-water that could be utilised for navigation purposes. Nonetheless, there is some room for improvement in the existing water-ways. The Industrial Commission recommends the formation of a Water-ways Trust particularly in areas served by both Railways and Steam Companies, with a view to relieving any congestion in the railway system. The development of Road Companies, however, has created a new situation which makes the old remedy obsolete. Lastly, we come to coastal transport. The total value of our coastal trade in 1932-33 was Rs. 153'47 crores, and about 5 million tons are annually carried by ships engaged in coasting trade in India. Unfortunately, however, the share of the Indians amounts to only 13%, the rest being practically monopolised by a few large British Navigation Companies. These Companies have formed themselves into a conference, which charges exorbitant rates on goods shipped from one Indian port to another, compared to the rates on goods in transit to and from foreign countries, thereby neutralising the natural protection which an Indian industry might expect to enjoy by reason of its situation relatively to foreign centres. The conference has also been responsible for persistent and organized efforts, so far remarkably successful, aimed at the crushing of Indian mercantile enterprise by various clubbing devices such as the *deferred rebate system* and *rate wars*.

Deferred rebate system.

The system has been described as follows—"The shipping companies issue a notice or circular to shippers informing them that if at the end of a certain period they have not shipped goods by any vessel other than those despatched by members of the company, they will be credited with a sum equivalent to a certain part (usually 10% of the aggregate freights paid on the shipment during that period) and that this sum will be paid over to them, if at the end of a further period, they have continued to confine their shipments to vessels belonging to members of the conference. The sum so paid is known as a *deferred rebate.*" The system thus serves to confine the loyalty of shippers to the British shipping ring with the help of reduced freight charge which becomes all the more attractive because it takes the shape of a bonus payable at the close of two successive periods of loyalty.

The deferred rebate method is not the only method employed by British Shipping Companies for throttling the Indian mercantile concerns. The conference also does not hesitate to resort to reckless rate-cutting as soon as an Indian competitor comes upon the field, until the latter is driven to liquidation.

Indian shipping concerns also suffer from the hostility displayed both by the Government of India, and British Insurance Companies. The former entrusts the carriage of Government mails as well as of Government stores to the British concerns to the exclusion of the Indian ones, while the latter regard all Indian shipping companies as second-

class risks although they might be regarded as first class risks by London experts. Thus, British vested interests and the old racial prejudice have come to be the greatest stumbling block on the way to prosperity of indigenous coastal shipping. The situation becomes all the more deplorable, if we remember that these foreign companies offer practically no facility to Indians for qualifying themselves for the higher posts, although the crew is largely Indian in composition.

If India is thus in a very unenviable position the state of the Indian ship-building industry is hardly better. The number of ships built in India amounts to only 22 as against 17000 ships built in the whole world in the 10 years previous to the War. There are no suitable ship-building yards in India for large ships and even the few existing repair-ships are controlled by non-Indians. But there was a time, not long ago, when ships built in India were regarded as greatly superior to European ships including British. Speaking of the period at the death of Akbar, Moreland observes that the great bulk of the commerce of the Indian seas was carried in ships built in India and that India had passenger-ships much larger than any in contemporary Europe, with the possible exception of the Portuguese. It was the introduction of iron-built ships and of mechanised sea-transport, coupled with the jealousy of the British shipping concerns and the operation of the British Navigation Act, that ultimately brought about the downfall of the Indian shipping and the ship-building industries.

The case for an Indian Mercantile Marine.

Indian national aspirations, both economic and political, have naturally insisted on the revival of an Indian mercantile marine with the help of state-aid, both legislative and fiscal. The systematic manner in which Indian shipping has been throttled by British shipping interests, has naturally aroused the greatest public indignation in the country, and the creation of a mercantile marine, Indian in ownership and composition, has become one of the greatest objectives of Indian nationalism.

Apart from nationalism, pure economic considerations also justify our aspirations as regards the establishment of a national shipping industry. India possesses undoubted natural facility both for shipping and ship-building. We have got a large home market as well as raw-materials and cheap-labour. All that we require is state-aid both by way of subsidy to the Indian ship-building industry and reservation of coastal traffic for Indian shipping. Even highly industrialised countries like Japan, the U. S. A. and Germany found state-intervention necessary for building up their own national Mercantile Marine in the face of powerful competition from British shipping concerns. Even England, who was regarded in the pre-war period as the world's ocean-carrier, built up her maritime greatness with the help of a series of Navigation Acts from the time of Queen Elizabeth onwards and in recent times has again found it necessary to subsidise certain branches of shipping which have been experiencing great difficulties in holding their own, thanks to foreign competition. India, therefore, is in very good

company in asking for a subsidy for building up her own mercantile marine.

Secondly, India demands the compulsory reservation of all coastal traffic for Indian shipping. Here also India is in very good company as the principle of reservation of coastal traffic has been adopted practically by all the nations of the world. Unfortunately, however, the British vested interests once more stand in our way and there are clauses in India's new constitution under the euphemistic heading of "safe-guards and commercial discrimination" which practically debar for all time the proposed Federal Legislature from passing any bill for such reservations.

In this connection, we might briefly refer to Mr. Haji's unsuccessful efforts in 1928 and 1929. In 1928 Mr. Haji moved a bill in the Indian Legislative Assembly for the reservation of coastal traffic for Indian shipping. According to the Bill, at least 75% of the shares of any shipping concern, operating in Indian coastal waters, were to be owned by Indians. The Chairman as well as not less than 75% of the Board of Directors were also to be Indians. The reservation was to be gradual extending over a five-year period. As regards the existing lines, they might either be purchased by the Government with a view ultimately to handing them over to Indian companies or they might be gradually Indianised. The Bill was referred to a Select Committee out of which it emerged practically unchanged. The Viceroy before taking any action summoned a conference of Indian and British shippers which naturally revealed a fundamental cleavage of opinion between the British and the Indian

groups, which offered to the Viceroy the necessary pretext for deferring the Government's decisions on the subject, pending the completion of the Round Table Conference's deliberations on Commercial Safeguards and Discrimination. And we need not repeat here what the deliberations could come to.

In 1929 Mr. Haji introduced a complementary Bill for the abolition of the deferred rebate system. While the purpose of the first Bill was to drive out the foreigners from Indian coastal traffic, that of the second was to ensure a fair distribution of business among the various Indian companies. Although in Mr. Haji's opinion the second Bill was quite independent of the fate of the first one, Sir George Rainy, the then Commerce Member, contended that the second Bill should wait until the earlier one was disposed of, one way or the other. He also defended the deferred rebate system on the ground that it ensured regularity of service, stability of freights and equality between large and small shippers, without being able to offer any convincing argument for his contention. He also criticised the Bill on the ground that it could not prevent or mitigate the rate-war that was going on. Thus, both the Bills of Mr. Hazi were torpedoed by the Government's hostility.

Conclusions

It is clear from the previous account that Indian aspirations regarding a national mercantile marine can hardly be fulfilled unless India gains greater control over her own destiny than what is offered by the Government of India Act of 1935. Nonetheless it is well for us to

cherish that dream and bear clearly in mind our programme of action in this respect, so that we might give effect to it as soon as we obtain the necess·ry political powers. We require a national mercantile marine because it would help to make us self-sufficient, because it would open new avenues of employment to Indians, increase our national wealth and give rise to highly remunerative subsidiary industries like ship-building, marine engineernig and marine insurance. Last, but not the least, an Indian mercantile marine will be invaluable in times of war in as much as apart from making us self-sufficient in the place cf existing dependance upon foreign shipping companies, it can be turned to military purposes, if the necessity arises. The argument sometimes advanced by interested foreigners that Indians are unfit for building up their own mercantile marine on account of their lack of sea-going habits is a downright tissue of lies as Indians have always been a seafaring people from 400 B.C. to 1800 A. D. and that Britain herself had to take infinite pains to drive out Indians from the Indian territorial waters.

Recommendations of the Mercantile Marine Committee (1923)

Before concluding this chapter, we summarise briefly the principal recommendations of the Mercantile Marine Committee (1923) which was appointed by the Government in response to insistent popular demand :

(1) For the training of Indian officers, there should be a training ship at Bombay. (This recommendation has been accepted by the Government and the Royal Indian

Marine vessel 'Dufferin' is being utilised for the training of Indian cadets.)

(2) Provision should be made in engineering colleges for the training of marine engineers.

(3) The coastal trade should be gradually reserved for Indian shipping. Shipping companies should be registered in rupee capital, with predominant Indian ownership and management, and with obligations to take Indian apprentices with a view to the gradual Indianisation of the officers' and engineers' posts.

(4) One of the existing British shipping concerns should be purchased by the Government and transferred over to Indian ownership and control.

(5) As soon as Indian shipping companies prove their efficiency in coastal traffic, the question of granting to them bounties for overseas transport should be considered.

(6) Preference should be granted to Indian shipping companies for the carrying of the Royal Mail and of Government stores.

(7) Calcutta should be the centre of the Indian ship-building industry, owing to its vicinity to coal and iron mines and constructional bounties should be granted to that industry to make up the difference between the foreign and demestic costs of production, subject to a maximum of 25% of the foreign price.

(8) Other facilities should be granted to the Indian ship-building industry by way of cheap loans, assistance in acquiring a suitable site, extension of Government and Port Trust patronage regarding cost, supply of expert assistance from abroad and the establishment of schools and colleges in India for the study of naval architecture.

Thus, the recommendations of the Mercantile Marine Committee are fairly far-reaching. Unfortunatly, the Government of India has earned an unenviable reputation for appointing expert committees whose published reports are invariably pigeon-holed and are destined never to see the light of the day again.

CHAPTER XVIII.

INDIA'S FOREIGN TRADE.

Historical Retrospect.

We have already referred to India's extensive foreign trade in the ancient period. As early as 3000 B. C. India had trade relations with Babylon. Egyptian mummies, supposed to belong to 2000 B. C. have been found to be clothed in the finest Indian muslins. India also had a flourishing trade with ancient Greece, ancient Rome, Arabia, Persia and China.

In those days there were both sea-routes and land-routes followed by India's foreign trade. The Indian ports were mostly situated in Sind, Malabar, the Coromandel Coast, Orissa and Bengal. In particular, Tamralipti (modern Tamluk) in Bengal was a very important port.

The land routes emanated from India's north-west and north-east frontiers. The former connected India with Afghanistan, Persia, Central Asia, China, and even distant Japan; while the latter connected India with Burma, the Malay Peninsula, Champa (the present French Indo-China) and Southern China. There were also direct land-routes connecting India with Tibet, Nepal, Bhutan and Sikkim.

India's foreign trade in those days, however, was confined to only rare and costly commodities, the principal articles of export were textile manufactures, ivory, metal-ware, perfumes, spices, etc, while the principal imports

were brass, tin, lead, wines, horses, etc. There was also a large entrepot trade in pearls, silks, porcelain and precious stones. As we have already stated elsewhere, India had a flourishing fleet of merchantmen in those days, which largely served as a carrier of India's sea-borne trade to and from far-flung countries.

Foreign trade in the middle ages.

With the beginning of the so-called Moslem period of Indian History, certain new factors came into play. Inevitably, the land-routes across the north-west frontier increased in importance as the Moslems came into India through that region. There were two such routes, one connecting Lahore with Kabul, and another connecting Multan with Kandahar.

There was also regular oceanic trade largely controlled by the Moslems. Once more the Malabar and the Coromandel coasts came into prominence, and to a lesser extent, the Gulf of Cambay. Calicut was a great centre for entrepot trade.

The nature of India's exports and imports, however, did not materially differ from their ancient counter-part. The main Indian experts were textile manufactures, indigo, spices, opium, pepper, drugs, etc. while her main imports were horses, jewels, gold, copper, tin, zinc, lead, amber and precious stones.

The Discovery of the Cape Route and after.

Alike in the classical and medieval epochs, India always loomed large in the Western imagination as the "Golden Ind", the land over-flowing with milk and honey, so to say. Hence, as soon as the clarion call of the Renai-

ssance woke up Europe from her somnolent stupor of a thousand years, some of the most adventurous spirits of Europe at once took up in earnest the intriguing task of discovering a direct sea-route to India. That great quest at first resulted in the discovery of America by Columbus. But it was reserved for the Portuguese sailor, Vasco De Gama, to round the Cape of Good Hope and to set his foot on the Indian soil, the first European to perform this feat exclusively by sea-voyage.

The discovery of the Cape route radically transformed the nature of India's commercial intercourse with Europe. Formerly, Indian products were carried by Arab merchants to Aden and thence carried by land and water to the Mediterranean coast. There they passed into the hands of Italian traders of Venice and Genoa who were responsible for their ultimate disposal in the different parts of Europe. The discovery of the Cape route, however, offered a unique opportunity to Portuguese merchants who naturally wanted to monopolise the whole of India's trade with Europe at the expense of the Arabs and the Italians.

In the first round of the contest, the Portuguese won very easily, as the Arabs were no match for those hardy Europeans whose cupidity was all the more strengthened by their christian zeal against the infidels who had caused them so much troubles nearer home in the not too remote past. But the very success of the Portuguese aroused the jealousy of their Northern neighbours, and erelong the English, the French and the Dutch fitted out their own fleets of merchantmen for fighting the Portuguese in India and the East Indies for the dual satisfaction of their commercial instinct and anti-inquisition zeal. We are

not concerned here with the details of the great struggle which ultimately resulted in the triumph of the English in India and of the Dutch in the East Indies.

The victory of the British East India Company not only over the rival European Powers, but also over the numerous Potentates in India, however secured, naturally gave it virtual monopoly of India's trade with Europe.

For some time, the character of the Indian trade was unaltered, the East Indian Company acting as the sole agent for the disposal of Indian rare products like textile and silk manufactures, etc. in the European market, partly at the expense of British manufacturers who naturally made the most clamorous protests and managed to secure prohibition, either partial or complete, of various Indian textile products.

The Industrial Revolution and after.

The Industrial Revolution which took place in England from 1760 onwards and gradually transformed the old methods of manufacture, agriculture and transport all the world over, was ultimately destined to exercise far-reaching influence upon the nature and volume of India's foreign trade. The East India Company, so long content to carry on Indo-European trade along the old, orthodox channels, now adjusted itself to the new situation and began to treat India as a colony, *i. e.* as a market for British manufactured goods and as a source of supply of raw materials and food-stuffs to Great Britain. That policy was fulfilled by the opening up of Railways in India connecting the ports with the interior, the gradual abolition of all internal customs barriers, the establishment of a uniform

rupee currency throughout India, and by the progressive realisation of free trade. Thus a New Era started in the Indo-British commercial relations of which the end is not yet in sight.

The Suez Canal and after.

The opening of the Suez Canal in 1864-65 which brought England nearer to India by 3000 miles gradually revolutionised the character of India's commercial relations with Great Britain. It accelerated the use of steam ships besides bringing about economies of time and distance. It was also a happy coincidence that the digging of the canal was coeval with extensive improvement in the world of steam navigation. At the same time the different parts of India became telegraphically connected and lastly in 1870 cables were sunk to the bottom of the seas, connecting India with Great Britain. It was the cumulative effect of railways and telegraphs, steamships and cables that silently but surely brought about a commercial revolution within a short space of time. The easy means of communication between Europe and India, besides facilitating the flow of trade between the two continents, was pregnant with significance from another point of view. There was a steady and growing influx of British capital and enterprise into India which, perhaps, would never have been otherwise possible in India. The abundant natural resources of India, hitherto untapped, now began to be recklessly exploited primarily for the benefit of the British commercial community.

Foreign trade 1870—1900.

During this period, there was on the whole an enor-

mous increase in the volume of India's trade with Great Britain although progress was by no means uniform. From an annual average of 991·44 millions of rupees, during the quinquennium which ended in 1873-74, the aggregate value of total trade of India went to Rs. 1973.63 millions during the quinquennium which ended in 1893-94. During the same period India's population increased at an annual average rate of not more than 1%. The increase might well have been greater still, if there had not been wide-spread famine and currency troubles in India, following the depreciation in the world value of silver and commercial depression outside. Commercial progress, however, received a check between the period lying between 1894 and 1900. Although in 1893 India abandoned silver monometallism to escape from ever-increasing strain on her exchange, various factors conspired to bring about a general trade depression in Europe and budgetory difficulties in India, which compelled the Government of India to increase various customs-duties which had a natural restrictive influence on the volume of trade.

Foreign trade 1900—1913

With the opening of the 20th century there was ushered in an epoch of unprecedented and world-wide commercial prosperity, thanks largely to increased output of gold and consequent rise in prices. For India the first year of the century was anything but dark on account of a wide-spread famine and a plague epidemic but from the second year onwards, good times returned. The total value of India's trade increased from Rs. 21108 lakhs in 1901-1902 to Rs. 34697 lakhs in 1913-14.

Foreign trade during the war.

The Great war brought about the first serious set-back to the progress of India's foreign trade which began from 1901-2 onwards. The reasons are not far to seek. *In the first place*, India lost her valuable markets in the enemy countries as well as in their occupied territories. This meant the loss of Germany who was India's best customer after Great Britain, Belgium, Servia, Montenegro, Poland, Rumania, large-tracts of Russia and Northern France.

Secondly, there was a virtual stoppage of trade with such allies as Russia. When the narrow bottle-necks of the Baltic and Black sea were corked and sealed by Germany and Turkey respectively, commerce with Russia was extremely difficult to carry on.

Thirdly, India's trade with neutral countries was also greatly hampered by measures of countraband and of blockade resorted to by enemy countries as well as by the activities of enemy submarines like Emden and Konigsburg.

Fourthly, even our trade with the Allies like England France, and others suffered on account of shortage of tonnage brought about partly by the withdrawal of enemy tonnage and partly by the commandering of Allied tonnage for military purposes.

Fifthly, the general impoverishment of European belligerents and neutrals also affected the total volume of trade.

Lastly, India's situation relatively to the war-fronts greatly affected the nature of her commercial relations with the world. Countries like the U. S. A., Canada,

Brazil and Argentine were in a better position than India to supply raw materials and food-stuffs to Europe, while the U. S. A. and Japan were in a better position to export manufactured goods to India.

The war, however, had one healthy effect in that it stimulated for the first time the export of Indian manufactures like cotton piecegoods, jute bags, leather goods and iron and steel goods.

Post-war foreign trade.

The cessation of the war was immediately followed by a sudden expansion of Indian exports as there was a great demand for Indian produce on the part of the Western Countries for the re-organisation of their industries. The increase would have been more marked but for exchange difficulties, labour troubles and lack of transhipment facilities experienced by India at that time. There was also an embargo on the export of cereals owing to famine conditions prevailing in India.

But this expansion was most unstable and was soon followed by a prolonged recession for which both *internal* and *external* conditions were responsible. As regards *internal conditions*, the most powerful factor was the failure of the Government to stabilise the rate of exchange which rose up even beyond 2s (gold). This high rate of exchange paralysed Indian exports while stimulating foreign imports. The reasult was that the balance of trade went heavily against India to the extent of Rs. 79·8 crores in 1921-21, and to Rs. 33·93 crores in 1921-22.

The *external* factors responsible for that recession were mainly the devastated state of Central Europe, wide-

spread disorganisation of currency and exchange and a senseless policy of deflation first started by the U. S. A. which was later on followed by other countries out of a fanatic faith in the sacrosanct nature of the pre-war price-level.

From 1923-24, however, to 1929-30 there was a general trade recovery in which India participated to some extent. The factors leading to the revival were the gradual reorganisation of European currency and exchange, agreements as regards war-debts and reparations on the basis of the Dawes and subsequentty the Young plan, a series of successful harvests in India, stability of the rupee-exchange and relative political calm. The total value of Indian trade which stood at Rs.427 crores in 1913 and at Rs 360 crores in 1923 increased to Rs 429 crores in 1927, touching the highest peak in 1929 when it stood at Rs 452 crores,

Analysis of Indian Post-war trade shows that Indian export trade revived much earlier than import. In 1923-24, Indian export closely approximated to its pre-war dimensions while it was not till 1928-29 that the volume of imports regained its pre-war level. This was largely due to the lack of adjustment between the import and export prices.

Another noticeable feature is that while the volume curve (*i.e.* the curve representing the values recalculated on the basis of the pre-war price-level) and the value curve (*i.e.* the curve of recorded values) both exhibit a marked tendency towards steady recovery, the former stands on far lower plane compared to the latter, and, on the other hand, while there are sharp depressions affecting the

former is practically free from such oscillations. Thus, the actual recovery and expansion of trade was even more regular than might appear from a superficial observation of the published trade returns.

The most depressing aspect of the post-war trade revival is that revival of the Indian trade both in regard to imports and exports was more slow and less marked than the trade of almost every other country. This is especially in contrast with our pre-war records when we were easily in the van of progress.

Foreign trade and the great depression.

The steady recovery of world trade which began from 1923 reached its highest peak in 1929 when it was overtaken by an unprecedented crisis following a complete collapse of the wall street stock exchange. Though the ball was set rolling by the collapse of the American speculative boom there were various other factors at work which served to accentuate to an unprecedented extent the great depression. It is beyond our province to make any detailed analysis of the causes of depression ; we shall, therefore, mention the outstanding factors.

In the first place, the long-period causes of the depression are to be traced to the post-war legacies of Reparations and Inter-allied Debts which were bound to create a huge maldistribution in the world's total supply of gold, large-scale defaults on the part of debtor countries and the consequent failure of confidence and cessation of foreign lending.

Secondly, intense nationalism, economic, financial and

political was also responsible for great hardships and devastations to the weaker countries which could not ultimately help affecting the stronger ones.

Thirdly, over-production, both industrial and agricultural, owing to rationalization and the hectic development of colonial and other backward regions, the niggardliness of the gold mines, the lack of collaboration among the world's leading Central Banks,—all these conspired to bring about an unprecedented fall in prices from which recovery was bound to be very slow and difficult.

Lastly, there was a great political unrest owing to the growing discontent of "Have-not" Powers like Japan, Germany and Italy, the failure of the Disarmament conference, the civil war in India, etc. which destroyed confidence and thus served to deepen the Depression.

The great economic blizzard naturally had very serious repercussions upon the volume of India's foreign trade. Both our exports and imports began to decline, the former more than the latter owing to the greater fall of agricultural prices. Compared to 1928-29, the peak of the post-war recovery, a decline of 5% for our imports and of 6% for our exports was registered in 1929-30. In the following year, *i.e.*, in 1930-31, imports declined further by 31·7% and exports (including re-exports) by 29%, compared to the level of trade in 1929-30.

In September 1931, England went off the gold standard and India followed suit. Although the depreciation of the pound-sterling and therefore of the rupee (as rupee was still linked to sterling at the old level) was naturally expected to check the growing deflationary tendency, prices in

India after slightly looking up for some time again reverted to the downward plunge. Thus, our merchandise exports declined in value from Rs. 225·6 crores in 1930-31 to Rs. 160·5 crores in 1931-32, while the value of our imports declined in the same period from Rs. 164·8 crores to Rs 126·3 crores. But it should be remembered that although the returns show a favourable balance of trade, it is largely due to the huge exportation of gold on private merchandise account which began with India's abandonment of the so-called Gold Bullion Standard owing to the great rise in the rupee price of gold and which has incidentally saved the Government of India from extreme embarrassments in the maintenance of the existing rupee sterling exchange, that would have otherwise occurred.

The next year 1932-33, though it had a rather promising beginning on account of the deliberations of the Lausanne Conference which recommended a complete clean state with regard to reparations and war-debts, however, closed in a very gloomy atmosphere owing to America's refusal to fall into line. That year was also marked by the final break-down of the Disarmament Conference which was followed by intense economic nationalism, leading to a further raising of the Tariff wall and consequent dwindling of international trade. India's foreign trade accordingly, suffered a still further decline, the total value of merchandise imports being Rs. 133 crores and that of exports being Rs. 136 crores. Once more the export of gold (worth Rs. 65 crores) on private merchandise account helped to maintain a favourable balance of trade.

The fifth year of the world economic depression, 1933-34 was destined to be a turning point for the prevalent economic forces. That year was marked by the defection of Germany and Japan from the League of Nations, President Roosevelt's launching of the ill-fated New Deal Campaign, and the conclusion of the Ottawa Agreement on Inter-imperial economic relationships. Of more direct importance to India were, besides the Ottawa Agreement, the Indo-Japanese Trade Agreement and to a lesser extent, the Mody-Lees Pact. Following these developments there was the expansion of Indian exports to the tune of Rs. 14 crores or 10 per cent while imports continued to decline to the tune of Rs. 17 crores or 13 per cent. India once more enjoyed her normal favourable balance of trade, irrespective of her gold shipments. The next year 1934-35 was marked by a very slow recovery of world trade. The craze for national self-sufficiency continued unabated, while the silver purchase policy of the U. S. A. ultimately drove China from her moorings on the silver dollar, making confusion worse confounded. In India, the industrial position was fairly maintained, while the agricultural situation showed some improvement, thanks to various restriction schemes. As regards foreign trade, there was a slight improvement of both exports and imports, the former by a paltry 3 per cent and the latter by as much as 15 per cent. Again, it was the gold export valued at Rs. 52¼ crores which maintained a favourable balance of trade.

During the last three years, there has been still further improvement of our foreign trade along with the gradual world recovery which has, paradoxically enough, received

a tremendous fillip from the present mad armaments race. A few months ago, there was a miniature Stock Exchange crisis in the U. S. A. which has been followed by a general recession. Moreover, the world's political outlook is anything but extremely ominous, the recent Munich Agreement which has paved the way for Germany's domination of Central and South-Eastern Europe, and the Japanese drive in South China, not to speak of Mussolini's dream of supremacy in the Mediterranean,—all these are highly disturbing factors. Autarchy is the prevalent key-note in almost every country. We can not, therefore, look forward to any considerable expansion of world trade for some time to come yet. Nevertheless, even within the limited opportunties we have got, there can be considerable expansion of Indian foreign trade, if we can finally get out of the Ottawa Agreement (which, though denounced by the Indian Legislature, still continues to govern our foreign trade) and enter into all sorts of bilateral trade agreements with foreign countries. In particular, the present Sino-Japanese war offers a unique opportunity to Indian manufacturers to capture some of the markets formerly supplied by Japan. Unfortunately, the present irresponsible Government of India does not take any interest in such matters. The result is a policy of drift which practically leads us nowhere.

AN ANALYSIS OF INDIA'S FOREIGN TRADE BEFORE AND AFTER THE WAR.

Pre-war distribution of foreign trade.

Although Great Britain has always been India's best customer and greatest supplier, the closing years before the war revealed a tendency towards diversion of Indian trade on both the import and the export side, from Great Britain. Whereas at the close of the 19th. century, the United Kingdom's share of Indian imports was 69%, while Germany contributed 2·4%, the U. S. A. 1·7% and Japan only 0·6%, by 1913-14, the share of the U. K. came down to 64·1%, while that of Germany increased to 6·9% and those of Japan and the U. S. A. to 2·6% each.

Similar tendencies were also discernible on the side of Indian exports. Whereas at the beginning of the present century, the United Kingdom absorbed 29% of our total exports, the far East some 24%, the U.S.A. some 7% and other countries the remaining 15%; by 1914 the British share was reduced to 24%, while that of continental Europe rose to 29%, the far East absorbing only 17%, the U.S.A. 9%, and other countries the remaining 21%. Thus, what the United Kingdom lost, continental Europe gained. Before the war, Germany was India's greatest customer after Great Britain, Japan occupying the third position.

During the Great War, the position of the United Kingdom in the Indian market suffered further deterioration, owing to her pre-occupation with war industries,

the control exercised upon her exports by His Majesty's Government and the restrictive influence of high prices then prevailing in Great Britain. The result was a decline of the British share of our total imports from 64·1% in 1913-14 to 45·5% in 1918-19. The war also witnessed the virtual exit of Germany from the Indian market. These two factors presented a unique opportunity to Japan and the U.S.A. who immediately stepped in and began to supply commodities like iron and steel, hardware, cotton piece-goods, glassware, paper, dye-stuffs, etc. which had been formerly imported from the United Kingdom. The entry of Japan into the Indian market was destined to be highly significant, as Japan took a leaf out of the book of pre-war Germany and made a special study of Indian requirements, while her exchange banks gave her great credit facilities for carrying on her Indian trade.

As regards Indian exports, the war, of course, increased the importance of Great Britain in particular, and of the British Empire in general as a market for Indian goods, thanks to excessive war-time requirements and various restrictions on trade even with neutral countries. The result was a rise in the share of the United Kingdom from 23·4% in 1913-14 to 29·2% in 1918-19, while the British Empire's share rose from the pre-war average of 41·1% to 51·7%

Germany, France and Belgium of course, had practically disappeared as markets for Indian goods. Japan and the U.S.A. on the other hand, in accordance with their new policy of closer economic relationships with India

increased their share of Indian exports from 9·2% & 8·9% in 1913-14 to 12·1% and 13·8% respectively in 1918-19.

Post-war tendencies of India's foreign trade.

In the post-war period, the tendencies which we have already noticed to be in operation in the pre-war regime became more and more manifest, at least so far as Great Britain was concerned. British exports to India began to decline more and more, thanks to a variety of factors such as the over-valuation of the pound-sterling when England returned to gold on the old level in 1925, the coal-strike in Great Britain in 1926-27, the absence of proper rationalisation, the gradual development of manufacturing industries in India under the fostering care of protection, and last, but not least, keen competition in the Indian market from Japan, the U.S.A. and Germany. Political agitation in India demanding the boycott of British goods also had some part to play in bringing about the general result.

In any case, the share of the United Kingdom of India's total imports which stood at 64·1% in 1913-14, came down to 47·8% in 1926-27, 44·7 in 1928-29, 42·8% in 1929-30, 37·2% in 1930-31, and to 35·5% in 1931-32. After 1931-32, however, there has been a marked improvement of Britain's position in the Indian market, thanks largely to the conclusion of the Ottawa Agreement which has been in operation since January 1933 which has given Britain a very favourable position in the Indian market *vis-a-vis* her foreign rivals. In 1934-35, Britain's share of India's total imports was 40·6%.

Meanwhile, Japan after temporarily losing her hold has more than regained whatever she managed to capture during the war, her percentage share being 15·7% in 1934-35. In fact, during the last few years preceding the present Sino-Japanese war, Japan's industrial skill was threatening to flood the Indian market with extremely cheap goods of all descriptions, and India could protect herself only with very great difficulty by invoking all sorts of extraordinary measures. The U.S.A. could not make much advance, her percentage share in 1934-35 being only 6·4%. Lastly, Germany has virtually more than ragained her pre-war position, her share in 1934-35 being 7·6%.

As regards our exports, Britain exhibited the same tendency in the post-war period as she did in the case of our imports. In 1926-27 her share was 21·4% of our total exports compared to the pre-war average of 23·4%. But from 1929-30 there was a steady improvement of our position in the British market, Britain's share of our total imports in 1933-34 being 32·2%. Likewise, Japan also increased her purchase of our exports, her percentage share in 1934-35 being 15·7. The share of the U.S.A. in the same year was 8·5%. while that of Germany declined to 4·6% from the high figure of 9·9% in 1927-28.

Analysis of imports and exports from the standpoint of goods.

A. Imports.

(a) *Cotton piecegoods.*

Before the war, the share of the United Kingdom was 90·1%. Although Britain is still the largest exporter of cotton goods to India, her share has steadily declined. being 71·3% in 1928-29, and only 51·6% in 1931-32. After the Ottawa Agreement, however, the British share improved and rose upto 69·7%. On the other hand, Japan steadily improved her contribution from 1·8% in 1913-14 to 18·3% in 1928-29, and 38·0 p. cent in 1931-32. After the Ottawa, Agreements, however, Japan's share declined to 32·4 percent in 1934-45.

(b) *Sugar.*

Java has always dominated the Indian sugar market, though in recent years, thanks to the phenomenal development of the Indian white sugar industry, her position has greatly deteriorated. In 1934-35, Java's share of our total imports was 77·7% compared to 73% in 1933-34, while that of the United Kingdom declined from 14 to 7·6%.

(c) *Iron, steel, hardware and machinery.*

As regards iron, steel, and machinery, the United Kingdom is still the largest supplier to India, though she has lost some ground partly on account of the development of the Indian iron and steel industry, and partly on account of competition from Germany, the U. S. A., Belgium and even Japan. The share of the United Kingdom in 1934-35 as regards iron and steel imports was

57·4%, while in machinery it stood at 72·4% compared to 68·4% in 1933-34. Germany's share in iron and steel was 8·5% while that of Japan was 5·3% in 1934-35. As regards machinery imports, the share of the U. S. A. in 1934-35 was 9·1% while Belgium's share was only 1·3%. Lastly, as regards hardware imports, the share of the United Kingdom was 32·1%, while those of Japan, U. S. A., and Germany were 10·5%, 9·8% and 31·1% respectively.

(d) *Mineral oils.*

As regards petrol, the shares of the U. S. A., U. S. S. R., Iran, and Borneo and Sumatra were 17·1, 24·9, 30·5 and 18·5% respectively in 1934-35. The U. S. S. R. was also the major supplier of petrol to India in that year.

(e) *Motor cars and motor cycles.*

In 1934-35, the U. S. A. contributed 41·3% of India's total motor imports, the United Kingdom. 40·5%, Canada 14·1%, and Italy only 1·5%.

B. Exports.

(a) *Tea.*

The United Kingdom is the largest customer for Indian tea, taking as much as 90·2% of our total exports in 1933-34, while Canada took only 3·2%. Before the war, Russia used to import large quantities of tea from India, her share in 1913-14 being 11%. But now Russia imports practically nothing as regards tea from India.

(b) *Jute.*

In 1934-35, the United Kingdom imported some 21·5%, Germany 17·9%, and Italy 11·7% of India's total exports of raw jute. As regards jute-manufactures, the U. S. A. imported 28·5%, Argentine 12%, Australia 9·3%, the United

Kingdom 7·5%, and Canada 3·4% of our total exports. Japan, Siam, and the Union of South Africa are other customers of Indian jute manufactures.

(c) Cotton.

Japan is India's best customer for raw cotton, her share in 1933-34 being 61·1%, compared to 39·6% in the previous year, thanks to the conclusion of the Indo-Japanese Trade Agreement. Italy is India's biggest customer for raw cotton in Europe. Germany, the United Kingdom, France and China are the other customers. In 1934-35 Britain's share was only 9·9%. In recent years Britain has been trying to increase her consumption of Indian cotton, in accordance with the Mody-Lees Agreement.

(d) Food grains.

Ceylon is the best customer for Indian rice, and she took some 26·4% of our total exports of food grains in 1934-35, the other customers being the United Kingdom, Straits Settlements, China, Java, Sumatra and Germany.

(e) Oil-seeds.

The share of the United Kingdom in 1934-35 was 32.9%, while those of the Netherlands, France, Germany and Italy were 13·3%, 14· %, 8·4% and 7·9% respectively. France is the largest single customer for Indian ground-nut.

(f) *Hides and skin.*

Here, too, the United Kingdom is our largest customer, her share in 1934-35 being 65%, while those of the U. S. A., Germany and Italy were 13·8%, 4·1%, and 4·3% respec-

tively. In the pre-war period, Germany was one of India's best customers for raw hides.

Extrepot trade of India.

India in ancient times had a very flourishing extrepot trade, thanks to her central position in the Eastern Hemisphere, silk goods and porcelain from China, pearls from Ceylon, precious stones and spices from the Indian Archipelago, as well as Venetian glass and other goods from the west,—all these commodities were directly imported by India for subsequent re-export to the Western and Eastern markets. Even in modern times, until recently, the extrepot trade of India was in a fairly flourishing condition, its value in 1920-21 having been Rs. 18·04 crores, compared to Rs. 5·80 crores in 1882-3. Since 1920-21, however, there has been a steady decline, reaching the low value of Rs. 3·22 crores in 1932-33, The present re-export trade of India is distributed among the different countries in the fellowing manner. The United Kingdom 30 per cent; Ceylon 13 per cent; the U. S. A. 7 percent; Japan and Iraq 6 per cent each; Arabia 5 per cent; Iran, Kenya, Aden, Bahrein Islands and Straits Settlements 3 per cent each; and France and Anglo-Egyptian Sudan 2 per cent each.

It is likely that India's extrepot trade will suffer progressive diminution in the future, as the modern tendency of exporting countries is to establish direct trade relations with their foreign customers.

The Indian balance of accounts.

It is a well known economic truism that international

trade is nothing but a form of barter. The value of goods imported must ultimately be equal to the value of goods exported, as otherwise the home country or the foreign country or countries will be placed in the unenviable position of permanent debtors. And a debtor who is permanent ceases to inspire confidence. Hence it is essential that in the long run, exports must pay for one's imports.

The classical dictum that "exports and imports must be equal," however, must not be interpreted too narrowly.

In the first place, there is no necessity for the exports and imports between any two countries for equalisation at all. A particular country "A" can easily afford to be a permanent debtor to another country "B", provided it is a permanent creditor to an equal extent in respect of countries other than B, the rate of exchange being determined not between any two countries, but between one country and the rest of the world.

Scondly, is not necessary for a country's exports and imports to equalise in the short period. The equilibrium which must be achieved is long-period equilibrium, and it is easily compatible with short-period disequilibrium,

Lastly, and this is most important to remember, exports and imports refer not only to the total merchandise trade, but also to other invisible items, like payments for the services of shipping, insurance, banking, imported foreign adminstrators, foreign loans, etc. They are called "Invisible", because they are not recorded in the published returns of the customs office. As, however, a country must pay for services received from abroad as much as it does

for goods imported from abroad, it is the total debits and total credits that determine its net balance of indebtedness. With these general observations, we proceed to a detailed analysis of India's balance of Accounts. The main items on the credit and the debit side may be enumerated as follows :

Credit	Debit
1. Exports of merchandise.	1. Imports of merchandise.
2. Loans from abroad.	2. Interest on foreign loans.
3. Foreign remittances to India either for missionary or for charitable purposes.	3. Repayment of foreign loans.
4. Foreign Tourists' expenses.	4. Remittances abroad by European residents in India.
5. Remittances to India by Indian merchants and coolies abroad.	5. Profits of foreign commercial concerns in India.
6. Treasure exported.	6. Payments for the services of foreign shipping and Insurance companies.
	7. Home charges.
	8. Remittances to Indian students and tourists abroad.
	9. Treasure imported.

Exports and Imports.

Exports and imports of merchandise, as we have

already seen, determine the balance of trade. On this item, ~~India has, except on rare occasions, always been a creditor country.~~ Our average credit balance in merchandise trade in the five pre-war years was Rs. 78 crores, during the war Rs. 78 crores, and in the first post-war quinquennium Rs. 53 crores. In the next quinquennium it rose to the record height of Rs. 1,13 crores after which, however, it declined to Rs. 43 crores during the five years ending in 1933-34. The year 1932-33 was an exceptionally bad year in this respect, our credit surplus being little over Rs. 3 crores. Though the next year witnessed a remarkable increase upto Rs. 35 crores, our normal credit balance has suffered much on account of the unprecedented trade depression which has affected agricultural prices much more than the prices of manufactured goods, so that the value of our exported goods consisting almost entirely of raw materials and good-stuffs, has suffered much more than the quantum exported.

Foreign loan transactions.

When a foreign loan is raised on behalf of a particular country, in the short period that country becomes a creditor and the foreign country becomes a debtor in as much as it is the foreigners' business to part with goods or money for the benefit of the borrowing country. When, however, interest is to be paid by the borrowing country on the loans raised abroad, or repayments are to be made, the borrowing country becomes debtor and the lending country becomes creditor.

Before the war, the Government of India raised prac-

tically all its loans in the London money market at a comparatively high rate of interest either for conducting various aggressive wars, or for the building of Railways, Irrigation and other Public works. Most of these loans have been renewed from time to time. Nevertheless, India has to pay huge interest charge annually. On other hand, fresh loans are also sometimes floated, although in the post-war period the tendency has been to float loans in the Indian money market. Nevertheless, this loan transaction constitutes a debit item in the long run.

(c) **Remittances to and from India on private account.**

Remittances to India from foreign missionary institutions for the upkeep of missionary establishments in India or from philanthropic foreigners for charitable or benevolent purposes or from Indian coolies and Indian merchants in the colonies and elsewhere,—all these constitute a credit item for India. On the other hand, a large sum of money is annually sent out of India, representing the profits of foreign merchants, bankers, planters, industrialists, doctors, lawyers, insurance and shipping companies in India. This constitutes a debit item for India. On the whole, India is a net debtor in this respect.

(d) *Tourist expenses.*

In so far as foreign tourists come to India, they have to purchase Indian money with the help of their foreign money, and as such the position is the same as if India exported goods to foreign countries. Thus, India becomes a creditor. On the other hand, in so far as Indian tourists

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go abroad, or Indian students go out for foreign studies, India has to purchase foreign money with domestic money. India thus becomes a debtor. So far as tourist traffic is concerned, India is a net creditor. But India has to spend annually a fairly large sum of money, estimated at nearly a crore of rupees, for her students undergoing overseas studies.

(e) *Home charges.*

Lastly, the Government of India has to send annually a very large sum of money to England, known as Home Charges. India's sterling obligations on this account amount to a colossal and an ever-increasing sum, having risen from £16,392,864 in 1899-1900 to £30,899,333 in 1931-32. The principal items constituting the so-called Home Charges are interest on guaranteed sterling loans raised for Railways, Irrigation, and other purposes, pensions and allowances to retired British officers, civil and military, the High Commissioner's pay and the establishment cost of his office, part of the expenses of the India office, etc.

(*f*) *Treasure.*

Though in 'invisible' items, India is a great debtor, her normal export surplus has been more than sufficient for her debits on non-merchandise account. The balance she has generally taken in the shape of gold and silver and this is why India has been regarded by the West as a great "sink" for the precious metals. The last great trade depression, however, drastically curtailed her normal export surplus, landing India in a highly embarrassing position out

of which she had a miraculous escape owing to the huge exportation of gold from India following England's abandonment of gold in September 1931. The total value of gold exported since 1931 stood at Rs. 272·13 crores on June 6, 1936. But for this unprecedented phenomenon of gold export, India would have suffered from an adverse balance of account and it is almost certain that Indian exchange would have broken down under that strain.

At the same time, while congratulating the Government of India on its high luck, we can not help pointing out the extremely precarious nature of our present balance of accounts. While our foreign obligations particularly sterling obligations, are more or less fixed and even increasing, as recent years have shown, there is no such security as regards our foreign balance. The latter depends entirely on the possibility of huge exports out of India and at a fair price, a possibility which may not be fulfilled in the future on account of the growing craze for national self-sufficiency and the growing industrialisation of India, necessitating an increasing domestic consumption of our raw materials and food-stuffs, hitherto sold abroad. Hence, it is imperative that our sterling obligations should be reduced to the furthest possible extent and that too in no time. Unfortunately, however, India has as yet no free hand in this respect and as such the present precarious basis of our national economy must apparently continue indefinitely.

The drain controversy.

In this connection, it would perhaps not be inappro-

priate to dwell briefly upon the much-discussed 'Drain' Theory. In popular parlance, India's Home Charges have been regarded as a sort of 'Drain' upon India owing to her political subjection to England. The necessity for achieving political freedom for India has been sought to be explained by many a nationalist orator on the ground that India is so extremely poor to-day, inspite of her vast natural resources, owing to the huge annual tribute she has to pay to England, her present political master.

The 'Drain' Theory, in that crude original form, is, of course, perfectly nonsensical. British Imperialism is clever enough not to exact any tribute from India. The Home Charges, as we have already seen, represent payments for definite services rendered to India by Britishers. So far the official explanation of the Home Charges is clearly right. Nevertheless, the 'Drain' Theory embodies the very important truth that Britain has ruthlessly exploited her Indian "possessions" for enriching her capitalists, industrialists of all descriptions, and other educated citizens. Loans have frequently been floated for satisfying either British Imperialistic vandalism or the so-called British prestige, in the distant London money market on extremely favourable terms, although they might have been raised in India on cheaper terms. Again, in purchasing stores, or in placing orders the Government has invariably shown great favouritism towards British firms. All sorts of facilities by way of transport, tariffs, currency and exchange have been provided in India for British industrialists at our expense. British banks, insurance, shipping, and railway companies

have been systematically fostered, while Indian concerns have either been completely neglected or deliberately throttled. In the name of Indian defence, a huge British army drawing very fat salaries and other allowances has been maintained out of India's poor exchequer manifestly for Imperialistic purposes, while no sincere effort has been made to strengthen the Indian defences particularly in the air, where she is most vulnerable. Again, in the name of efficient administration, Britishers have been recruited to the various superior services on very generous remunerations, although equally efficient Indians could easily have been found to fill those posts on much reduced salaries. Lastly, all sorts of so-called British 'experts' have been invited to India with the offer of extravagant emoluments, although their recommendations have been systematically forgotten, unless British interest was involved, whether directly or indirectly.

All these extravagances which could never have taken place in an independent India are rightly summed up in the Drain theory. Hence, we are in favour of retaining it, although we can not naturally accept its popular version.

Trans-frontier Trade of India.

So far we have confined ourselves only to the trans-oceanic foreign trade of India. But there is another branch of our foreign trade which, though now-a-days relatively far less important than its sea-borne rival, is nevertheless carried on across our difficult frontier routes. We have noted elsewhere the flourishing state of our

frontier trade, particularly in the days of the Great Moghuls. In recent times, thanks to the construction of strategic railways, there has been some improvement of our trade with the trans-frontier regions like Afghanistan, Iran, Central Asia, Nepal, Tibet, the Shan states, Western China and Siam. The total value of such trade was recorded in 1924-25 to be Rs. 41·81 crores, as against Rs. 23·15 crores in 1916-17. The actual volume of trade carried on in these regions must be considerably greater inasmuchas records are taken only at certain selected places,while trade goes on through all sorts of mountainous tracks. India's principal imports across these land-routes are wheat, grain, pulse, rice, fruits, raw wool, raw silk and living animals. Our principal exports are cotton goods, cotton yarn, sugar, petroleum, leather manufactures, tea, silk goods, etc.

Given better communication facilities and a better organisation, our trans-frontier trade is capable of substantial expansion.

Foreign trade and our national prosperity.

Our growing foreign trade, particularly sea-borne trade, since the opening of the Suez Canal, has invariably been pointed out by our alien rulers and their Indian partisans as a sure index of our growing national wealth, presumably due to the benign influence of British rule in India. It is therefore necessary for us to submit such a contention to an impartial critical examination.

To begin with, a country's foreign trade is governed by the principle of comparative costs. A country im-

ports those things in the production of which it has got a comparative disadvantage, and exports those things in the production of which it has got a comparative advantage. But this comparative advantage is easily compatible with absolute disadvantage, just as comparative disadvantage is compatible with absolute advantage. Now, if we look to the main composition of our exports and imports, we find the former mainly consisting of raw materials and food-stuffs, and the latter mainly composed of manufactured goods. Now, so far as manufactured goods are concerned, they are either incapable of being produced in India or they can be produced only at higher costs. Our imports, therefore, are a sign of our inefficiency and incapacity. Regarding exports, although India exports annually a large quantity of raw materials and food-stuffs, it is by no means true that we can produce them cheaply relatively to other countries, except in the case of jute and tea for which Indian soil and climate are naturally fitted. Thus, our exports indicate at once our comparative advantage and absolute disadvantage.

Secondly, the bulk of the Indian exports in their existing shape takes place, because they can not be utilised at home. Our raw materials are sold to foreign countries at a relatively cheap price, there to be manufactured into finished goods for disposal at a much higher price in the Indian and other foreign markets including their own. It would have been a matter of sincere congratulation if our raw materials could be converted into finished goods with the help of domestic capital and enterprise and then sold abroad after satisfying the domestic demand. But

things being what they are, our exports in their present form are an indication of our successful colonial exploitation by Britishers rather than of our national prosperity.

Again, food-stuffs are exported out of India while millions of our country people suffer from different degrees of starvation, because they have not the necessary purchasing power.

Thirdly, it is by means true that the more prosperous a country is, the greater the volume of its foreign trade. A small country, which can not produce all that it requires, is. other things being equal, likely to have a greater amount of international trade than a large one which is likely to be more self-sufficient. This is the reason why the U. S. A. which is easily the richest country in the world, has got a much smaller amount of international trade than the United Kingdom.

Again a country's imports invariably diminish with the development of its less advanced industries. Hence a diminution of imports might as well be an indication of a country's industrial development, as it might indicate diminished purchasing power. Similarly, a decline of the export of raw materials and food-stuffs would generally indicate growing industrial equipment and growing purchasing power in the home country.

Hence, India's large and growing foreign trade in its existing shape is a symbol of a great maladjustment in our national economy, and we look forward to its diminution until we are in a position to export manufactured goods of the requisite quality. And even in the

long run, we do not envisage a large volume of our foreign trade, as in our opinion the Indian sub-continent is naturally fitted for economic self-sufficiency, the importance of which can hardly be over-emphasized in these days when the war-clouds are scowling in the political horizen.

CHAPTER XIX.

COMMERCIAL AGREEMENTS.

Imperial Preference : Its history.

We have already in Chapter XIII. explained broadly the meaning and implications of Imperial Preference in its bearing on the Indian fiscal system. In this chapter we shall discuss critically its culmination in the Ottawa Agreement as it has affected India, after a brief survey of the history of the movement.

The idea of Imperial Preference was first mooted during the closing years of the 19th. century. As the different parts of the British Commonwealth of Nations became more or less self-governing, Imperialistic thinkers began to discuss at length the possibility as well as the desirability of binding the scattered and well-nigh independent units of a far-flung empire by closer economic ties, now that the political ties of the Commonwealth were becoming thinner every year. The idea of Imperial Preference was thus political and Imperialistic in its origin, rather than economic.

It was, however, reserved for the British Dominion of Canada to take the first practical step in the direction of Imperial Prefernce when in 1897 she lowered her duties to the extent of one-eighth in favour of British goods. Next year, still greater preferences were given to British

goods unconditionally, while the colonies were offered concessions, provided they were prepared to reciprocate.

The Colonial Conference of 1902 recognized the desirability of a general extension of Imperial Preference in all parts of the British Empire. Accordingly, New-Zealand, South Africa, and Australia granted unilateral preference to Great Britain. In England, Joseph Chamberlain made intensive country-wide propaganda in favour of Imperial Preference, but he could not make much headway against the prevailing free trade ideology. Thus, the cause of Imperial Preference received a severe set-back for the time being on account of the hostility or obstinacy of the Mother Country.

In the post-war period, however, Imperial Preference was destined to have a more successful career, thanks to to the increasing difficulties experienced by Great Britain in pushing her goods in the foreign market. Before the war, Britain's undisputed industrial pre-eminence required a regime of free trade for, its fullest utilization. In the post-war period, however, Britain lost her industrial leadership. While Japan, the U. S. A. and various continental countries rapidly rationalized their industries. Britain failed to re-organize her in the same degree, thanks to intense labour difficulties, the over-valuation of the pound since 1925, and the high standard of living of British workers. Moreover, Britain was practically the only solitary free trade country surrounded by highly protectionist neighbours,although the Safeguarding of Industries Act passed in the early twenties had

already introduced some amount of protection into the very citadel of free trade itself.

The crisis of September 1931, however, served as a landmark in the fiscal history of Great Britain. The National Government, predominantly conservative, which was then formed, asked for and obtained a free hand for effecting far-reaching changes in the fiscal system of the country. Accordingly, Britain abandoned free trade in favour of absolute Protectionism in March 1932.

But mere Protectionism was not the cure-all for Britain's difficulties. Indeed, as Britain has to depend upon foreign imports of both food-stuffs and raw materials, protection, in so far as it applies to such imports, can only serve to increase the burden of the consumers and manufacturers without curing the maladjustment in the country's economic system. For Britain, therefore, the vital problem was the problem of expansion of her exports. But, as we have already seen, on account of a variety of causes, internal and external, British exports to foreign markets were bound to decline more and more. Hence for British statesmen, the safest and the easiest method of recovery lay in the formation of one inter-imperial economic *bloc* resting upon a preferential tariff system. Accordingly, the Imperial Economic Conference which met at Ottawa in 1932, resulted in an Imperial Trade Agreement, popularly known as the Ottawa Agreement. Legislation implementing the Agreement was passed by the Indian Central Legislature in December 1932 and the Agreement came into force from January 1, 1933.

The Case for Ottawa.

The Ottawa Agreement which is easily the most comprehensive Trade Agreement India has entered into in recent years, will be discussed here in two instalments. We shall at first enter into a discussion of the arguments *for* and *against* the Ottawa Agreement, based on certain fundamental facts of the situation. Secondly, we shall give a critical evaluation of the Agreement from a detailed examination of the results of its actual operation.

The general case for the Ottawa Agreement may be summed up as follows :—

(a) The Ottawa Pact gives India a sure and expanding market in the United Kingdom, which would have been otherwise lost as Great Britain is determined to treat as foreigners all those, even within the Empire, who do not agree to grant her preferences. Britain has always been by far the largest customer for Indian goods. It is, therefore, absolutely in India's interests to enter into a preferential agreement with the United Kingdom, whereby alone India can retain her largest market.

(b) India can ill-afford to lose the British market, as the foreign countries, the other potential customers for Indian goods, have already become more or less self-sufficient as regards raw materials, owing to the rapid development of the virgin lands of America, and Africa, particularly of Argentine, Brazil, Canada, and the African colonies.

(c) India should not think that Britain can not do away with her goods, as the British colonies and Domini-

ons can supply many things which formerly India alone could offer cheaply.

(d) As the Indian rupee was linked to sterling, it was obviously in India's interest to develop her trade with the sterling bloc of which Britain was the undisputed leader, as that would save India from all the depredations of rapid exchange fluctuations and the restrictive effects of exchange controls which trade with foreign countries would invariably subject her to.

(e) The whole world was suffering from a craze for national self-sufficiency and international trade was being systematically throttled by ever rising tariff walls, quotas, barter agreements, etc. As Britain too had joined that game of intense economic nationalism, India could hardly afford to keep herself aloof from the Preferential Scheme which gave her an assured market.

Case against Ottawa.

The main arguments urged by the critics of the Agreement may be summarised as follows :—

(a) In the first place, the Agreement which is an instrument for forging closer economic links between Britain and India, will serve to create an artificial diversion of India's foreign trade from its natural channels. Both during the closing years before the war, and in the post-war period, there has been a natural tendency towards the diversion of Indian foreign trade from Britain and the Empire. Britain was steadily losing her hold on the Indian market, while Indian exports were finding increasing favour in the non-empire

countries. It was, therefore, in the natural economic interest of India to develop her trade with foreign countries including Great Britain by separate bilateral agreements, instead of being dragged into a preferential scheme with Great Britain which was not only a positive hinderance to the successful conclusion of such bilateral pacts, but also might provoke retaliatory measures against her from her principal foreign customers.

(b) Preferences granted to Indian goods in the British market were not as beneficial as they might appear at first sight, because

(i) some of the preferred goods, (e.g. tea, jute manufactures, mica, goat-skins, castor-seed) had been for a long time dominating the British market and Britain could hardly secure them elsewhere and as such the preferences were un-necessary ;

(ii) Some of the preferred goods (e. g. sheep-skins, ground-nuts, pig-lead, spices, coffee, coir-mats) though protected from foreign competition which was never acute, were fully exposed to severe competition from other Empire countries like Australia, British West Africa, British East Africa, Canada and Ceylon ;

(iii) Some of the preferred goods (e.g. ground-nuts) had a larger market outside the United Kingdom, and as such so long as there remained competition among Indian exporters, the commodities in question must have sold at the same price in the British market as elsewhere, thereby completely nullifying the benefits of the Preference.

(iv) Preferences were in some cases granted to commodities which India either does not export much

(e.g. rice, barley.) or can not sell in the British market because she has not got commodities of the requisite quality for British consumption (e.g. tobacco);

(v) Preferences given to some commodities were inadequate and as such there could be no security from competition.

(c) The British threat that India's failure to fall in line with the Ottawa scheme of Imperial Preference would be punished by a complete closure of the British market to Indian goods was an empty bluff, partly because it was eminently in the British interest to admit duty-free Indian raw materials and food-stuffs which Britain badly required for her industries and domestic consumption, and partly because Britain could not secure the payment of the enormous Home Charges except by stimulating a regular and substantial export surplus for India.

(d) While India had thus practically nothing to gain and much to lose from the preferences granted to her goods in the British market, the extensive preferences granted to various British goods in the Indian market were likely to be injurious to her in various ways.

(i) In the first place, they meant in certain cases the withdrawal of some protection which some of the Indian industries were enjoying so long.

(ii) Secondly, there would be a loss of customs revenue to the Government of India as Indian imports came to be diverted from foreign goods to British goods bearing a lower amount of duty.

(iii) The burden on Indian consumers would increase, as there would be an end to the competition among all

foreign manufacturers including the British in the Indian market, and as India would have to depend more and more upon British goods, which because of their high costs of production, were being gradually driven out of the world market. Precisely because the Ottawa Agreement was a line of defence for British goods which could not hold their own against foreign competition, and sought to extend to the limits of the Empire the benefits of a closed home market for British goods, it was likely to be an instrument for serving British interest at India's expense.

The working of the Ottawa Agreement.

The Ottawa Agreement has been in operation in India for over five years inspite of India's denunciation of the same a fairly long time ago. Here we propose to confine ourselves to the first two or three years' working of the Agreement for a critical appraisal of its repercussions upon India.

A. Exports of Preferred goods.

(1) Between 1931-32 and 1933-34 we increased our exports of preferred commodities to the United Kingdom by Rs. 3,18 lakhs. During the same period, however, our losses in the industrial countries of Europe amounted to Rs. 4.18 lakhs. Between 1931-33 the non-empire countries lost about a quarter of their total trade in "preferred exports" to U. K. But India's loss, if she kept out of the preferential scheme, could not have been by any such large fraction, as India's exports to the U. K. account for over 80% of the British preferred imports. The prices of these preferred goods would have fallen less or risen

more in the U. K. and the competitive power of India in relation to other Empire countries would have been reduced much less than the competitive strength of non-empire countries *vis-a-vis* the Empire countries at present.

(2) Secondly, unlike some of the non-empire countries, India has had a sterling exchange standard which would have been of great value in retaining India's hold upon the British market.

(3) In respect of *preferred* commodities like jute, raw and manufactured, ground-nuts, rice, shellac, mica, goat-skins, manures and myrobalans, our total exports to all countries are much greater than our exports to the United Kingdom. Hence, preference in the British market has not helped us to secure any higher prices for them. On the other hand, our foreign customers, now that Imperial Preference has ousted them from the British market, have shown a decisive tendency towards the cultivation of their own colonial resources or a resort to various substitutes, involving India in a net loss. This is particularly true of our commercial relations with France and Germany. While these markets were largely lost owing to our adherence to the Preferential Scheme, Britain could not be of much service to us on account of her limited demand for some of these exported goods.

(4) We come next to *a second group* of *preferred* commodities, e.g., hides and skins, cotton manufactures, tea, spices, teakwood, oilcakes, castor seed, linseed, pig-lead and coir. In respect of all these commodities, the total British imports are much greater than the total Indian

exports, and sometimes even greater than the total Empire exports. The Ottawa Agreement has helped India to improve her position considerably in the British market as regards some of those commodities, though preference has been of very little consequence for commodities like tea which owes its prosperity largely to the International Restriction Scheme, or like cotton yarn and manufactures for which Britain has no considerable demand.

(5) *Finally*, we turn to a group of *preferred* exports in which we supply a very small proportion of the total British imports. This group includes coffee, tobacco, hemp, vegetable oils, woollens, carpets, mahogany, etc. Here too India has generally improved her position in the British market, but largely at the expense of her own foreign markets.

B. Imports of Preferred goods.

Between 1932-33 and 1934-35, our imports of preferred goods increased in value by about Rs. 5 crores, while our imports of non-preferred goods were down, by Rs. 5½ crores. In so far as the Imperial Preferential Scheme was designed to strengthen Britain's position in the Indian market, the above figures show that that purpose has been largely fulfilled. At the same time, we can not ascribe the whole of the increase to the fact of Preference, inasmuchas most of the preferred goods were either on the free list or were subject only to revenue duties, while the non-preferred goods were subject to the imposition of protective duties. The expansion of the former and the contraction of the latter are, therefore, somewhat natural.

Secondly, we must not run away with the idea that the cost of the Imperial Preference to India is equal to the total value of the extra imports from the U. K. In theory, it is only equal to the extra cost of securing them from the favoured country rather than from others. The only practicable way of measuring this is by noting the price-changes in respect of the preferred imports, in so far as these changes have been brought about by the fact of the Preference. If Preference is given by lowering duties on British goods, prices can not rise; conversely, they can not fall if preference has been given by raising the duties on non-British goods. When preference is given partly by lowering the duties on British goods and partly by raising the duties on foreign goods, the result is indeterminate. The total value of our imports affected by the preferential scheme, was Rs. 33·3 crores in 1932-33. Preference was given to (a) imports worth Rs. 3·7 crores by lowering duties on British goods by 10%, to (b) imports worth Rs. 4·5 crores by raising duties on non-British goods by the same percentage, and to the remaining (c) imports worth Rs. 25·1 crores both by reducing and increasing duties on British and foreign goods respectively by 5%.

As regards the *first* (a) group of imports (which includes motor cars, arms, wireless apparatus, etc.), the standard *average* rate on foreign goods was 42%, *ad valorem*, while the standard *average* preferential rate was roughly 34 per cent. But as the United Kingdom supplied only 30% of these commodities in 1932-33, it is very likely that all our imports were sold at the higher price, i. e., at the price at which foreign goods bearing the higher duty

were sold in the country. It is unlikely, therefore that the Indian consumer has appreciably benefited from the preference granted to British goods, while it is certain that the Government of India has incurred some loss of revenue, which would have amounted to Rs. 14 lakhs even if the foreign supply were not reduced. The only possible benefit to the Indian consumer may have arisen from the keener competition offered by British exporters in the Indian market to drive out part of the foreign supplies.

As regards the *second* 'group' of preferred imports (which includes vegetable oils, paints, oilcloth, woollen yarns, etc.), the rates on British goods were retained at the prevailing rate of 25% *ad valorem*, while duties on foreign goods were raised to 35%. As the United Kingdom supplied only 40% of the imports of such commodities, in 1932-33, obviously the selling price in India has been determined by the foreign price plus the duty on foreign goods. Thus there has been a great burden on Indian consumers on account of the Preference. On the other hand, the Government benefited from the higher rate on foreign imports, though that benefit has been neutralised to the extent to which British goods have displaced foreign goods.

Lastly, we come to the *final* group of preferred commodities not included within the first two groups. In respect of these commodities, the duties on foreign imports were raised from 25 to 30% *ad valorem*, while the duties on British imports were lowered from 25 to 20%. As Britain supplied only 40% of the total imports, it is likely that the selling price in India increased to the full extent of the

additional duty imposed on foreign imports. The loss to Indian consumers, therefore, must have been considerable. The Government revenues also must have suffered both because of reduced duties on British imports and any possible displacement of foreign goods by British goods in the Indian market, while they have increased in respect of foreign imports bearing the higher duty. The net result must have been some loss to the Government. Thus the Ottawa Agreement on our *import* side has been as injurious to our consumers and tax-payers, as it has been to our producers on the *export* side.

Concluding observations and suggestions.

We have studied in some details the changes in our imports and exports, both in volume and in direction, in the first two years following the Ottawa Agreement. As we have already indicated, not all these changes may be attributed to the Agreement itself or to that part of the Agreement which directly concerns India. For a just appraisal of the value of the Agreement, we must, therefore, place it in the back-ground of world trade and consider the main factors that were shaping its course.

Between 1931 and 1932, both world trade and the trade of the British Empire as well as India's foreign trade declined. The decline continued further up to 1933, although the trade of the British Empire fell less than the world trade between 1932 and 1933. Between 1933 and 1934 the world trade as well as the trade of the Empire increased, but the improvement was greater with regard to Empire trade. Again India's exports both to the Empire

and to all countries increased between 1932 and 1933, while the values of both world and Empire trade diminished. But between 1933 and 1934 there was only 3% rise in India's exports as against 6% increase in world trade and 10% rise in Empire trade.

Again, if we analyse the different constituents of the world trade, we find that between 1933 and 1934, the recovery of trade in food-stuffs was less than 1%, in raw materials 9% and in manufactured goods 7%. Thus the relative revival of world trade was mainly characterised by increased international demand for raw materials which was, of course, again due to increased industrial activity. Raw material-producing countries were thus in a position to reap the largest profit from the general recovery which was taking place during that period.

Coming to India's exports, we find that they exhibited the same tendency as the general world trade. Between 1932-34 and 1935, our exports of food-stuffs declined by 3 per cent, while our exports of raw materials increased by 36% and of manufactured goods by 2·5%.

In order, therefore, to realise the extent to which the Ottawa Agreement benefited India, we have to compare the expansion of her trade with that of other raw material-producing countries. Here we find that between 1932 and 1933 India's share in the world export trade increased more than the shares of Central and South America, China, Dutch East Indies & the countries in South Eastern Europe, but less than those of British Malaya, Egypt & Persia, & the Scandinavian countries. Between 1933 and 1934, however, while most of the countries

increased their share, some of them very substantially, India's share declined and only less than China's. It is indisputable, therefore, that the Ottawa Agreement did not succeed in the least in placing India on any vantage ground vis-a-vis other raw material-producing countries scattered in the seven seas who could hardly boast of any commercial Treaty of the standing of the famous Ottawa Treaty.

If the Ottawa Agreement thus did not benefit India except in very minor matters, it might be contended that it played a very major role in bringing about general world recovery from which India, along with others, has benefited, though not to an equal extent. In the first place, such an argument is perfectly irrelevant to our present study which is particularly concerned with the consequences following from India's participation in the Agreement. Secondly, even if we assume it to be relevant, it does not appear to be very well-founded and for the following reasons.

First, the British Imperial Preference because of its vast scope involves a much greater interference with international trade than the tariff changes of any other country. It is an attempt to place on a self-sufficient basis one-fourth of the whole globe and as such it has stimulated much the movements elsewhere for national or Imperial self-sufficiency as in the cases of Germany, France and Italy.

Secondly, it has involved the most violent breach of the Most Favoured Nation Clause principle which did so much to facilitate the flow of international trade.

The closure of the British and to some extent of the Imperial market to foreign goods has practically put an end to the old triangular trade by which European countries paid for their imports from India and some other countries by increased sales in the British market. The Ottawa Pact, however, completely transformed the situation and foreign countries were forced to accept the disastrous creed of greater and greater national self-sufficiency. The general recovery noted above, therefore, has taken place not *because of*, but rather *inspite of* the Ottawa Agreement.

Thirdly, it might be claimed that the Ottawa Agreement by offering a stable market for our raw materials in the United Kingdom must have exercised some favourable influence on the trend of export prices the relative rise of which was largely responsible for the increased value of our exports during the period under review. But this view is also not very correct. The Ottawa Agreement by engendering keen competition among different Empire producers in the limited British market seems more to have depressed export prices than to have raised them. Above all, a scheme of Imperial Preference with its strangling effect on the general flow of international trade can hardly be expected to induce an upward trend of commodity prices.

Thus, from whatever angle we look at the Ottawa Agreement, it does not appear to have benefited India except in small parts, while its harmful effects, direct and indirect, have been considerable and in many respects

far-reaching. Therefore, the practical question of the moment is whether we should end it or mend it.

Mr. D. Ghosh in his "Revision of Ottawa" has not favoured the idea of ending the Agreement altogether on the ground that during the last few years our commercial relations with Great Britain have become more and more close and intimate, while we have increasingly lost our hold on the foreign markets. It is therefore too late in the day to scrap the Agreement altogether and to face a new and changed world with no support to fall back upon. He sees further grounds for caution in the fact that already foreign countries have adopted different commercial policies aimed at self-sufficiency, based on 'devisen' (or exchange) controls, quotas, barter agreements, exploitation of their own colonies, where they exist, and a determined hunt after substitutes. Accordingly, Mr. Ghosh favours a revision of the Pact in such a manner that we might retain its benefits or expand them, if possible, while rejecting those provisions which work to our disadvantage. At the same time, we should try to establish fresh contacts with our erstwhile foreign customers by means of new bilateral trade agreements.

Mr. Ghosh's remedy is highly interesting inasmuch as it proposes to give us the best of both the worlds without any of their sadder elements. In our opinion, however, such opportunistic remedies may not be very fruitful in actual life. Of course, we agree with Mr. Ghosh that had India never entered into the disastrous 'Ottawa' ring, her position today in the foreign countries

would have been much better. But even now, we think, nothing substantial may be lost, if India boldly jolts out of the "Ottawa" Agreement and makes a vigorous attempt to enter into all sorts of bilateral agreements with different foreign countries. With all zeal for achieving national self-sufficiency, it is fortunately true that the world demand for raw materials and to a lesser extent for food-stuffs still continues to exist. Hence it is not impossible for us to establish new commercial pacts with the principal industrial countries of the world. We can also offer as an inducement part of our home market for cheaper foreign manufactured goods, once India ceases to be a dumping ground for the more costly British manufactures for the benefit of which the Ottawa scheme has been primarily devised.

Finally, we do not imagine that our scrapping of the Ottawa plan will be followed by any notable shrinkage even of the British market, partly because Britain can not do away with the great majority of our present exports to her, and partly because Britain must have an import surplus from India to secure the payment of the so-called Home charges.

Lastly, we must remember that if adherence to Imperial Preference has not prevented Britain from establishing or discussing commercial Agreements with foreign countries resting on gold or paper standards, there is hardly any reason why she should desist from entering into a bilateral pact with a sterling standard country like India, particularly when both of them have been dominating each other's market for nearly a century.

The Ottawa Agreement has perhaps been a natural result of the economic and political ties binding the United Kingdom and British self-governing Dominions. The Dominions' trade with the United Kingdom is generally complementary in nature, hence the economic justification of the Pact. Their political relations with the United Kingdom are also very sweet and cordial, the British commonwealth being a free association of self-governing units composed mainly of the Anglo-Saxon race with the same language, religion and custom. Herein lies the political justification of the Pact. But for India to be a signatory to the Agreement, there is hardly any justification, economic or political, to be found. *Economically*, India has gained very little and lost a good deal since the conclusion of the Pact, while *politically* we have no reasons for inflicting sufferings upon our producers and consumers alike for benefiting our despotic master. Hence, it will be a very sad and cruel incongruity for India to be willingly tied to the apron-strings of the British economic system which has historically meant so much devastation to our economic prosperity. If 'fiscal Autonomy' means anything, India must be allowed to carve out her own economic destiny in her own independent manner and along natural economic channels, free from the withering effects of any Preferential Scheme.

THE INDO-JAPANESE TRADE AGREEMENT

Historical Survey.

Since 1904, India and Japan were bound to each other by the Most Favoured Nation clause which assured equality of commercial treatment to each other in relation to other foreign countries with whom both might have commercial contacts.

The world economic depression which started in 1929 brought about an orgy of currency and exchange depreciation in which Japan was easily one of the most successful competitors. The result was that from 1932 onward, there was a continuous depreciation of the Japanese *yen* which placed Japan in a very favourable position for underselling almost all the countries belonging to the *sterling bloc*. India with her vast market, naturally aroused the cupidity of the Japanese exporters, and Japanese goods of all descriptions came to be imported in ever-increasing quantities, threatening the existence of some of the well-established industries of the country, particularly of the Indian cotton industry. A huge clamour was raised by Indian cotton interests, demanding protection against the new Japanese menace and the Government of India was ultimately forced to intervene. Import duties on non-British plain grey cotton piece goods were raised to 50% *ad valorem* with a minimum specific duty of 5¼ annas per lb. as a protective measure; but even this high duty proved to be insufficient. In order to be able to take stronger measures, His Majesty's Government on behalf of the Government of

India gave a formal notice to the Government of Japan of their desire to cancel the Indo-Japanese trade convention of 1904 under which Japan enjoyed the privilege of the Most Favoured Nation treatment. This action on the part of the Government of India led to a movement in Japan for the boycott of Indian cotton as a retaliatory measure. The actual boycott, however, did not take place until June 1933 when the Government of India announced an increase in the duty on foreign cotton piece goods to 75%, *ad valorem* with a minimum specific duty of 6¾ annas per lb. on plain greys. At the same time the the Government of India invited Japan to send to India a commercial delegation for the conclusion of an Indo-Japanese commercial agreement on a reciprocal basis. That invitation was accepted and in October 1933 a Japanese trade delegation came to India and met the official and non-official representatives of Government of India. After 3 months' negotiations an agreement was ultimately reached which was followed by an immediate withdrawal of the Japanese boycott of Indian cloth in January 1934 and a reduction of the duty in India on foreign cotton goods from 75 to 50%. The new Indo-Japanese Commercial treaty was formally signed in London in July 1934.

Provisions of the treaty.

The new agreement laid down a *convention* regarding the future of Indo-Japanese Commercial relations, as well as a *protocol* defining the exact terms of the new commercial agreement.

The *convention* provided that Japan and India were

to accord to each other the Most Favoured Nation treatment, that both parties had the right to impose additional duties against each other's goods to counteract the effects of any currency depreciation, and that they should enter into negotiations with each other whenever any changes were made in their domestic tariffs, with a view to arriving at a reconciliation of their conflicting interests.

The terms of the *Protocol* may be summarised as follows :—

(1) Japan is allowed to export annually to India 125 million (linear) yards of cotton piece goods without any obligation to purchase Indian raw cotton.

(2) Japan will have to buy from India one million cotton bales for every 325 milion yards of cloth exported by her to India. This is the *basic quota.*

(3) The *maximum quota* for Japan in any year was fixed at 400 million yards. But in that case Japan would have to purchase 10,000 bales of raw cotton for every additional 1½ million yards of cotton piece goods exported by her. On the other hand, if Japan purchased less than 1 million bales of raw cotton from India in any year, her basic allotment of 325 million yards would be diminished by 2 million yards for every 10,000 bales of the deficit. In case, however, Japanese imports of Indian raw cotton exceeded 1½ million bales in any single year, she would be be credited with such excess in the following year.

(4) Customs duties on importation of Japanese cotton piece goods were not to exceed the following rates :—

(a) 50 per cent. *ad valorem* or 5¼ annas per lb, which ever is higher in respect of plain greys.

(b) 50 per cent *ad valorem* on all other varieties of cotton piece goods.

(5) The normal sub-allotment of the Japanese quota of cotton piece goods was laid down as follows :—

(a) Plain greys 45 per cent (b) Bordered greys 13 per cent (c) Bleached goods 8 per cent (d) Coloured (printed, dyed or woven) goods 34 per cent.

The working of the Indo-Japanese Agreement.

The Indo-Japanese Commercial Agreement is the first instance of a commercial treaty entered into by India with a foreign country, in the negotiation of which non-official business people in India played some part. Although the actual terms of the agreement are not very much impressive as an indication of the bargaining capacity of the Government of India's advisers, both official and non-official, the agreement itself is a welcome sign of India's awakening to the necessity of entering into bilateral treaties with important foreign countries with whom India has close commercial relations.

The greatest beneficiary of the Agreement has been the Indian cotton grower who has thereby secured a large and stable market in Japan. Until recently, the actual export of Indian raw cotton to Japan has, of course, sometimes exceeded the quota fixed under the agreement. Nevertheless, the benefit to India in this respect is certainly substantial. Indian cotton, as we already seen, is generally of the short staple variety and as such it is not of much value to Lancashire who requires long staple cotton for her superior cotton manufactures. As the Indian cotton mill

industry absorbs only 50 per cent of our total produce of raw cotton, we require a stable market for the remaining 50 per cent. This has been largely secured by the Indo-Japanese treaty.

But with this solitary bright exception, the Indo-Japanese Commercial treaty of 1934 has been productive of results which have mostly favoured Japan at India's expense.

In the first place, the *quota system* had many loopholes which were thoroughly exploited by Japanese exporters in order to send to India textile goods much in excess of the agreed quantities.

(a) For instance, taking advantage of the lower duties of 35% on fents (*i.e.*, rejected cuttings of cloth pieces), Indian importers of Japanese piece-goods imported into India abnormally large quantities of spurious fents which were nothing but perfectly good piece-goods of garment lengths, specially sized for evading the higher duties and the quota restrictions. Not less than 36,709,688 and 34,759,506 yards of fents were imported into India in the first and the second year respectively after the conclusion of the Agreement through the Kathiawar Port.

(b) *Secondly,* Japan exported huge quantities of silk and artificial silk piece-goods which were also not included within the quota.

(c) *Thirdly,* Japanese exporters in order to evade the quota arrangement began to send ready made cotton goods like shirts, dresses, skirts, etc. which literally flooded the Indian market.

(d) *Fourthly,* Japanese piece-goods have sometimes

been re-exported from India to Afghanistan and Nepal from which places, however, they were smuggled into India through ill-guarded border routes, thus avoiding the quota restriction.

(c) *Lastly*, the *linear yard* basis has not been generally adhered to and cloth of greater width has frequently been exported to India.

Thus, the main objective of the Agreement, namely restriction of Japanese export of cotton piece-goods to India, has not been adequately fulfilled and the Indian cotton-mill industry has suffered much on account of unfair Japanese competition.

(2) *Secondly*, the Indo-Japanese Trade Agreement of 1934 has been strongly criticized for overlooking the interests of many other nascent Indian industries which have suffered most owing to unfair Japanese competition. Japanese soap, glassware, boots and shoes, hardware. woollen goods, cycles, umbrellas & various toy products have been imported in huge quantities, and because of their extreme cheapness have wrought havoc upon corresponding domestic industries. On the other hand, Japanese imports of Indian pig iron, jute and oil-seeds have been greatly reduced since the conclusion of the Pact. Critics have rightly contended that there should have been a comprehensive trade agreement between India and Japan on a reciprocal basis, instead of a limited Agreement regarding rival cotton interests only, and that even this limited Agreement has not been very scrupulously maintained.

(3) *Lastly*, it has been said that even the interests of the Indian Cotton growers have not been safeguarded in

the best possible manner. The negotiators seem to have forgotten the basic fact that the importation of Indian raw cotton by Japan did not represent any sacrifice on the part of Japan, submitted to only as an inevitable price for the privilege of entry into the Indian market. For Japan Indian raw cotton was an absolute necessity, her average purchase during the last ten years being nearly 1½ million bales. In the first year after the conclusion of the agreement, Japan purchased more than 2 million bales, a striking evidence not of her generosity but of her dependence upon Indian raw cotton. Hence, the *basic quota* should have been fixed at at least 1½ million bales instead of 1 million bales, as it was actually done. Moreover, Japan should never have been allowed the gratuitous privilege of exporting 125 million yards of cotton piece-goods without any obligation to buy Indian Cotton.

It is clear from the above reasonings that the first Indo-Japanese Trade Agreement has been at once inadequate and defective. Its scope was unduly restricted, the Indian cotton interests monopolising all the attention possibly because of their great clamour and organized campaign, the other lesser industries being left absolutety unsheltered to face the full brunt of Japanese competition. *Secondly*, even within its limited scope, it failed conspicuously to enforce strict adherence to the *exact* terms of the Agreement. On the other hand, Japan got practically everything she wanted. She got back the Most Favoured-Nation treatment, the unrestricted entry into the Indian market with regard to all goods other than cotton, and even as regards cotton, she managed to secure

a quota arrangement which she seemed to circumvent at all points by various devices whenever she chose to do so. And the price that she had to pay for all these privileges was the obligation to buy Indian raw cotton in quantities which were below her average off-take for some years past, an obligation which was not only welcome but even compulsory from the Japanese point of view, as Japanese Cotton Mills could hardly work to full capacity without the supply of Indian raw cotton.

The Indo-Japanese trade agreement of 1937.

As the Indo-Japanese Agreement was due to terminate in March 1937, it was hoped that in the ensuing negotiations the Government of India would fully profit by the experience derived from the actual working of the previous Agreement as well as from the able representations made by various Indian commercial bodies. That hope, however, was doomed to utter disappointment.

In the new *Protocol* which came into force on April 12, 1937, the following provisions have been made :—

(1) The *basic quota* has been reduced from 325 million yards of Japanese piece-goods to 283 million yards against 1 million bales of Indian raw cotton, while the *maximum quota* for Japan has been fixed at 358 million yards of cotton piece-goods. For every 10,000 bales of raw cotton in excess of the basic quota, Japan can export 1,50,000 yards of cotton piece-goods to India.

(2) Allotment regarding the constituent elements of the Japanese quota has been made as follows :—

(a) Plain greys—40%

(b) Bordered greys—18%
(c) Bleached (white) goods—10%
(d) Printed goods—20%
(e) Coloured goods—17%

Thus, the new Agreement is practically the old one renewed with some reduction in the basic quota for Japanese piece-goods. Apparently, the terms are more favourable to Indian mill-owners without any injury to the cotton growers. But here we must remember that in the meanwhile Burma has been separated from India and that Japan has concluded a separate Agreement with Burma regarding her piece-goods trade. Hence there has been no sacrifice on the Japanese side. On the other hand, no attempt has been made to remedy the glaring defects revealed by the old Agreement.

(a) *Fents* have not been included within the category of cotton piece-goods to which character they actually belong. Even the emergency duty of 50% on fent was reduced to 35% to placate Japan. The only provision that was made was that their maximum imports into India were not to exceed the high limit of 8·95 million yards.

(b) Again the yards in which the quota has been fixed are the same old *linear* yards, and not *square* yards although the Japanese-Australian Trade Pact of 1937 has been fixed in terms of square yardage. Thus Japan has been given the opportunity to double her actual quota by sending cloth of much greater width.

(c) No agreement has been made regarding the Japanese export of silk and artificial silk goods in the interest of the Indian silk industry, the duty of 50% *ad valorem* or

5 as per lb whichever is higher, having been proved to be insufficient for the purpose.

(d) No limitation has been put to the Japanese export of numerous made-up cotton goods, like shirts, skirts, etc, although the recent American-Japanese Cotton Agreement has included within its scope specialised products like towels, table-cloths, handkerchiefs, etc.

(e) *Lastly*, nothing has been done to save the numerous nascent industries like soap-manufactures, umbrellas, toys, shoes, etc. which had been facing all these years the frightful effects of Japanese exchange-dumping.

Thus, once more India has emerged discreditably out of the Indo-Japanese trade negotiations, thanks largely to the anxiety of the Government of India to placate Japan. As the government can not claim this time the excuse of ignorance, it is difficult to resist the conclusion that political pressure must have been put from Whitehall upon the subordinate Indian government to make generous concessions to Japanese demands in the interest of British friendship with the Great Power of the Far East. Thus, probably for political reasons, our first essay in the sphere of bilateral treaty negotiations must be regarded as a failure from the commercial point of view.

The Bombay-Lancashire Textile Agreement.

The phenomenal rise of the Japanese cotton-mill industry and the keen challenge presented by it to the Indian cotton-mill industry both in the home market and the foreign markets including the colonial markets, led to an unexpected development of the relations between Lanca-

shire and Bombay. Hitherto, Lancashire had been a relentless opponent of the Indian cotton-mill industry, although there was hardly any keen competition between the two, as Lancashire mainly produced finer cloths, while Bombay produced coarser piece-goods and as such she catered for different markets. Japan, however, was a more direct and serious rival of India; and to a lesser, but growing extent, of Britain, both in India and elsewhere. Hence, the emergence of a common foe was conducive to an unexpected and unprecedented *rapprochement* between the traditional rivals, Bombay and Lancashire.

Mr. H. P. Mody, the then president of the Bomay Millowners' Association, during his stay in England in connection with the London discussions on the Reserve Bank of India legislation, made a gesture to Lancashire to adjust her relations with Bombay on a reciprocal basis, provided she recognised India's right to frame her tariff policy in accordance with her own national requirements, and provided she undertook not to stand in the way of India's political progress. This suggestion of Mr. Mody was almost immediately taken up and a Lancashire trade delegation led by Sir William Clare Lees come to India to negotiate a textile agreement with the Indian textile industry, thereby implicitly admitting that Indian commercial questions could only be dealt with in India.

The Lancashire trade delegation met the representatives of the Indian textile industry. In the course of the discussion, however, serious differences arose between the views of Bombay and other Indian cotton centres. The result was that Lancashire could negotiate an agreement

only with the Bombay cotton industry which represented only 50% of the Indian textile industry. This Agreement is popularly known as the *Mody-Lees Pact.* The Pact was signed on 8 October 1933 and it was to remain in force till 31 December, 1935.

Provisions of the Mody-Lees Pact.

(1) It was agreed that while the Indian cotton textile industry required some protection against the import of British yarns and piece-goods, India required higher protection against foreign manufactures on account of the lower cost of production and depreciating currency in foreign countries. The reference was obviously to Japan but the principle of preferential treatment of British cotton goods was thereby admitted.

(2) It was agreed that when with the improvement of the revenue position, the Government of India found it possible to do away with the surcharge on all imports imposed since 1931, India would exempt Lancashire cotton piece-goods from any additional surcharge that might be imposed on other imports.

(3) It was agreed that India should lower her duties on imports of cotton yarns and artificial silk piece-goods from Lancashire.

(4) It was agreed that Lancashire should explore all possible avenues for greater absorption of Indian raw cotton in the Lancashire textile industry.

(5) *Finally,* it was agreed that the Manchester Chamber of Commerce would use its good offices for securing a market for Indian cotton piece-goods in over-

seas markets in which Indian mills were without established connections, and that wherever the British textile industry could secure a quota for itself, a part of the same should be given to the Indian textile industry.

How the Mody-Lees Pact was received.

The Mody-Lees Pact, as it might be expected, was hailed with great official blessings both in Britain and in India as inaugurating a new era of Indo-British commercial co-operation in place of the old mutual suspicion, and bitter rivalry. It was pointed out as a great boon to India, that Lancashire recognised India's legitimate industrial and political aspirations, that she would increasingly provide a market for Indian raw cotton thereby helping the Indian cultivator who had at present to depend upon Japan, a foreign country ; and that the Manchester Chamber of Commerce promised to provide India with an overseas market for her cotton piece-goods possibly at the sacrifice of its own interests.

Indian public opinion and particularly the opinion of the Indian mercantile public, however, could not take such a rosy view of the prospects. A great deal of resentment was felt towards Mr. H. P. Mody (who has subsequently been knighted possibly for his service to Lancashire) for having made substantial concessions to Lancashire at the expense of the Indian textile industry in lieu of certain vague promises and assurances. The promise as regards greater off-take of Indian raw cotton by Lancashire was not regarded as being of much value, as Lancashire primarily wanted long staple cotton which could be

best supplied by the U. S. A. and Egypt. Even if Britain could take more of Indian cotton, that would be because of its relative cheapness and in the interest of Imperial self-sufficiency and as such no special thanks-giving service was called for.

The assurance as regards foreign and overseas markets was similarly minimised on the ground that the Indian Cotton textile industry which was still unable to hold its own in the home market without a substantial measure of protection could hardly be expected to do much business in overseas markets in the teeth of keen international competition. Finally, it was pointed out that the Bombay Mill-owners' Association which represented only 50% of the Indian Textile industry had no right to bind the whole of India to an Agreement in which other Indian textile interests did not participate.

Government action following the Mody-lees Pact.

The Government of India, however, was undeterred by all these public criticisms and almost forthwith proceeded to implement the Pact. This was done by the Indian Tariff (Textile Protection) Amendment Act which came into force on May 1, 1934, establishing the scale of duties agreed to under the Pact. These new duties on British cotton goods were to remain in force for two years after which they were to be considered afresh by a fresh Tariff Board.

In September 1935, the proposed Tariff Board was set up which made the following principal recommendations :'—

(1) That the duty on plain grey goods should be reduced from 25% *ad valorem* or $4\frac{3}{8}$ annas per lb whichever was higher, to 20% *ad valorem* or $3\frac{1}{2}$ annas per lb whichever was higher.

(2) That the duty on bordered grey, bleached and coloured piece-goods (other than prints) should be reduced to 20% *ad valorem*.

(3) That the duty on cotton yarn should remain the same as before.

The above recommendations of the Tariff Board were immediately given effect to by the Government of India by means of a special Notification. The special treatment meted out to Lancashire by the Tariff Board at India's expense, as well as the precipitate haste of the Government in implementing these recommendations, came in for great public criticisms. The Government, however, defended its action by citing its own precedents of raising duties on imports of Japanese piece-goods without consulting the Indian legislature. If duties could be raised by a Notification, they could equally be lowered by a Notification. One could retort that there was a world of difference between the objects of the two Notifications, in as much as the earlier ones were emergency measures in Indian interests, while in the second case the emergency was conceivably Lancashire's and as such it was no business of the Government of India to bother about it.

The Indo-British Trade Agreement.

As a sequel to the Ottawa Agreement and the Mody-Lees Pact, an Indo-British Trade Agreement came into

existence in 1934 which was to remain in force during the currency of the Ottawa Pact.

To begin with, there is not much that is novel or striking in the new Agreement. It re-iterates the principles of Indo-British co-operation adopted in the Mody-Lees Pact and emphasises the necessity for reduction of duties on British cotton piece-goods to 20% *ad valorem* or $3\frac{1}{2}$ annas per lb as regards plain greys, and to 20% *ad valorem* on others, a suggestion which, as we have already seen, was fully adopted by the Tariff Board of 1935 and implemented by the Government of India by a special Notification.

The Agreement repeats the assurance as regards Lancashire's intention to take more and more Indian raw cotton as well as the desire of His Majesty's Government to explore the possibilities of overseas markets, particularly in the British colonies and protectorates, for Indian cotton piece-goods.

His Majesty's Government further undertakes to continue the existing privilege of duty-free entry of Indian pig-iron into the British market, so long as the existing duties on British iron and steel imports into India are not raised, and to encourage generally greater consumption in the United Kingdom of Indian raw or semi-manufactured materials used in the manufacture of articles on the importation of which preferential duties have been imposed in India.

Finally, the Agreement seeks to clarify the principles which were to govern Britain's commercial intercourse with India. His Majesty's Government recognises that

revenue duties on British goods are unavoidable in the existing financial position of the Government of India, that India has the right to grant discriminating protection to those Indian industries whose claim to protection might be recognised by the recommendation of the Indian Tariff Board, but it stipulates that the amount of protection should not exceed the rate necessary for equating the prices of imported goods with the *fair selling prices* of corresponding Indian goods. Subject to this condition, however, lower duties should be imposed on British goods, whenever possible. This provision, however, does not affect the protection enjoyed by numerous industries under the Safeguarding of Industries Act of 1933, or the right of the Government of India to impose surcharges in addition to existing protective duties out of revenue considerations. On the other hand, the Government of India undertakes to afford full opportunities to British commercial interests to state their case fully whenever the Indian Tariff Board will be considering the claim to protection of any Indian industry or the case for a radical alteration of the existing rate of protection to any Indian industry in view of altered circumstances.

Critical evaluation of the Indo-British Trade Agreement.

The official claim,

The so-called Indo-British trade Agreement, coming on the heels of the Ottawa Agreement and the Mody-Lees Pact, naturally came in for great official blessings and public criticisms. The Government spokesmen repeated

the advantages secured for Indian raw cotton, pig-iron, other raw and semi-manufactured materials generally, as well as Indian cotton manufactures which could now hope to be offered an outlet in the colonial markets. On the other hand, India lost nothing. India's fiscal Autonomy was maintained and the principle of discriminate protection was recognised by His Majesty's Government. Revenue considerations of the Government of India were also completely unaffected by the Agreement. India's status as an equal contracting party was recognised. In brief, the Agreement was nothing but, to paraphrase Sir Joseph Bhore's speech, a crystallisation of existing fiscal practices and conventions, and an implementing of implied promises given at Ottawa and the definite promises given to the Clare-Lees Deputation. The Viceroy even maintained that the Agreement would magically transform the attitude of the British public towards Indian political aspirations and would relegate the "Safeguards" to the background.

Indian re-action.

Whatever the merits claimed for the Agreement by official spokesmen, the Indian reaction has been one of most vehement opposition. It was widely apprehended that the Fiscal Autonomy Convention, never scrupulously maintained, was now going to the officially thrown overboard, as rival British industries obtained the right to present their case for protection to the Tariff Board equally with the Indian industries. It was equally preposterous that the Indian Tariff Board could not recommend any

alteration of existing protective duties in the face of an emergency without giving an opportunity to interested British parties to make their own representations. The entire transaction became all the more scandalous as no such reciprocal rights were accorded to Indian interests in the United Kingdom. His Majesty's Government, not satisfied with the wide and far-reaching privileges accorded to British industries both by the Ottawa Agreement and the Mody-Lees Pact, now succeeded in fastening a still closer chain on India's Fiscal freedom in that British commercial interests came to be recognised as an equal partner with Indian interests. And as British and Indian interests are largely competitive in character, obviously India would be more systematically sacrificed for the sake of her dominant partner. The vague assurances as regards greater off-take of raw cotton, and other raw or semi-manufactured materials or as regards securing of colonial markets for Indian cotton piece-goods, deceived no one. The impression was universal that Britain took the substance, and India got the shadow,

The Indo-British Trade Agreement, however, had a very short-lived existence. as it was denounced by the Indian Legislative Assembly. Similar fate also overtook the Ottawa Agreement. As the Government had agreed to abide by the verdict of the House in all fiscal matters, notice was given for the termination of both the Agreements. The Government, however, obstinately maintained that pending the conclusion of a fresh Agreement. the existing preferences on British goods should continue. As no such Agreement has so far been concluded, the

scale of preferential duties established by a series of disreputable Agreements has been continuing to exist, although Indian public opinion demanded their immediate termination. This is one more anomaly in our Fiscal Autonomy.

Basis of a true Indo-British Trade Agreement

As negotiations for a fresh Indo-British Trade Agreement, despite the recent set-back, are bound to continue in the future, it might be useful for us to indicate certain basic facts which must be remembered before entering into any bilateral pact with the United Kingdom.

In the first place, unlike Britain, India, is well adapted for an economy based on the principle of national self-sufficiency. The U. S. A. rather than the United Kingdom should be our model in this respect.

Secondly, while Britain has always been our greatest customer chiefly for *historical* reasons, the natural tendency of India's foreign trade, both for some years before the war and in the post-war period, has been, until the conclusion of the Ottawa Agreement, one of increasing diversion from Britain to other foreign countries. Hence, it is as important to cultivate our foreign markets as it is to cultivate the British market. It follows that nothing should be done to placate Britain, which might in any sense prejudice our relations with the foreign countries in which we are interested.

Thirdly, the interest of Indian industries and of the Indian consumer should in no case be sacrificed. This principle completely rules out all prospects of our partici-

pation in any scheme of Imperial preference. We must give protection not only to those industries which can ultimately hope to withstand world competition, but even to those which may not do so, provided they are essential for military purposes in times of war.

Fourthly, while there can be no question of a preferential treatment to Britain, it may be to our advantage to conclude a bilateral trade Agreement with the United Kingdom on the basis of reciprocity. But in negotiating such a treaty, one thing must be remembered. On account of certain "invisible" British exports, India is a debtor country and has to pay annually about Rs. 80 crores to the United Kingdom to repay her obligations in this respect. A trade agreement between a creditor and a debtor country can never be strictly based on the principle of *quid pro quo*: the debtor must have an export surplus and the creditor must be satisfied with an import surplus, unless default or repudiation is desired. As India has no other means of discharging her well-nigh permanent obligations, known as Home Charges, to the United Kingdom, our 'invisible imports' from Great Britain must be fully taken into account before the conclusion of a bilateral commercial treaty with her on the basis of reciprocity. At the same time vigorous efforts should be made to reduce drastically and ultimately to abolish our so-called 'invisible' imports, to pave the path for a future bilateral pact with the United Kingdom on the basis of an exact *quid pro quo.*

Scope of Bilateral Agreements for India.

Although the Indo-Japanese Commercial treaty and the Indo-British trade Agreement, both technically bilateral in character, have been highly disappointing in their terms and results, failure from the Indian point of view is more due to the manner of their negotiations, and to the political forces which shaped their course than to the fundamental nature of bilateralism as such. Hence, Indian commercial opinion has definitely expressed itself in favour of separate bilateral agreements with different important countries in the place of existing adherence to the most favoured-nation treatment clause. Not that India is not alive to the dangers and distress inherent in a gradual shrinkage of international trade and in restrictions on the free flow of foreign trade involved in various clearing or barter agreements : but in a world, pledged to the ideal of national or Imperial self-sufficiency, with a greatly reduced volume of foreign trade whose course is strictly regimented by various bilateral pacts, India has no choice but to fall into line with the rest. It is only in this way that India can get back her lost markets and remedy her present unfavourable balance of trade with countries like Germany, France, Italy etc.

The Government of India, however, has so far rejected the idea of entering into fresh bilateral pacts with different important countries and that for the following reasons :—

In the first place, India has not much to gain from the conclusion of such pacts, as she has normally a favourable balance of trade with the important foreign countries

mentioned. The present unfavourable balance may be a passing phenomenon. By entering into bilateral pacts, India will forfeit the future advantage of enjoying a favourable balance.

(2) *Secondly*, even admitting that it is desirable to enter into bilateral agreements, it is not practicable to do so. India is no longer in the old commanding position as a supplier of food-stuffs and raw materials to most of these countries. For instance, Germany who was formerly a large customer of Indian raw materials, now imports her cotton from Brazil, Peru, Egypt and Turkey; hides and skins from South America; oil-seeds from the Argentine, etc. as she has got clearing agreements with all these countries. Moreover, Germany is trying to resort to various synthetic products and chemical substitutes. Similarly, France is depending more and more upon her colonial products, the U. S. A. upon herself, Italy upon her colonies and so on. Besides the control over foreign exchange maintained by these countries might present serious impediments at any moment to the actual working of any Agreement that might be reached.

(3) *Lastly*, India can not hope to get back a foreign market without giving concessions in her own market, and such concessions may not be in the interest of the Indian domestic industries.

The above paraphrase of the main official arguments against India's participation in bilateral agreements is highly interesting as it indicates a desperate attempt to defend a position which the defender knows to be indefensible. While Britain is straining every nerve to increase

her foreign balance by Imperial Preference, and various bilateral treaties, India is calmly asked to sit tight till the restoration of her normal favourable balance with foreign countries. If times are abnormal to-day apparently they are going to be normal to-morrow. Hence, a policy of drift is justified. The next moment, however, we are told that such 'normalcy' for India at any rate can not be restored, as foreign countries are becoming more and more self-sufficient, and as they have already entered into bilateral pacts with other raw-material-producing countries. One should like to know why India can not enter into a bilateral agreement with Germany, when Egypt, Brazil and Argentine have already done so. Again if 'exchange' control has not prevented the functioning of clearing agreements between Germany and the other countries mentioned above, why should it act as an insurmountable stumbling block on the way of an Indo-German pact ?

But the most interesting part of the Agreement is the Government's solicitude for Indian industries which might be threatened by concessions granted to foreign countries. Obviously the Government must believe that concessions, however great and far-reaching. embodied in the Imperial Preference Scheme, and the Indo-British trade agreement, can not but have a salutary effect on Indian industries as John Bull is the recipient, but concessions, however limited and narrow in their scope, can not fail to hamper the same Indian industries, when the recipient is a foreigner. So in the official logic, it is the nationality of the recipient that determines whether a given concession is

going to be constructive or destructive. Well might Aristotle take note of this!

The truth is that the Government of India knows thoroughly well that bilateral agreements, however beneficial to India, can not be concluded except at the expense of the United Kingdom. India can not secure a concession in a foreign country without making reciprocal concessions in her own country. It is precisely on this point of a *quid pro quo* that the Government experiences its difficulty. There is hardly any important item of our foreign import trade on which Britain has not already secured, through various euphemistic pacts and agreements, substantial preferential concessions in the Indian market. Hence concessions can be given to foreigners primarily at Britain's expense. This is the solid reason, though unmentioned in the official apology, why the Government has not thought it fit to prescribe bilateral pacts for India. Yet, it is precisely for this reason that India must contemplate the conclusion of bilateral pacts, if thereby her commercial prosperity can be advanced. We must secure a foreign market for those goods of which Britain takes the the least and foreigners took the most in pre-Ottawa days and for that privilege we must give to the foreigner concessions in our own market regarding those goods in which they are interested, at the expense, if necessary, of a part or whole of the British exports of identical goods, provided our own domestic industries do not suffer thereby. This constitutes the natural and perfectly healthy lines along which bilateral agreements may be negotiated.

CHAPTER XX

INDIAN CURRENCY AND EXCHANGE

Early History of Indian Currency

The ancient Hindu kings were very much fond of gold coins bearing their own inscriptions and sometimes some symbols or mottos of their own rule. Particularly when a new monarch established himself by right of conquest on a new throne, the earliest royal act was to strike coins in his own name and to circulate them among the public. As India, except on rare occasions, always consisted of a number of principalities and states, a large number of gold coins, varying both in their gold content and degrees of fineness, circulated at the same time in the different parts of the country.

In the Moghul days, both gold mohur and silver rupees were generally recognised as legal tender, and although there was no fixed ratio between them, both bore a fixed relation to the *dam*, the copper coin of the Moghul Empire. In south India, which never came completely within the grasp of the Great Moghuls, there were usually gold coins particularly in the different Hindu kingdoms.

After the death of Aurangzeb, when India was thrown into great political chaos, naturally an extra-ordinarily large number of small states sprang up everywhere, each claiming a coin of its own, with the result that about the middle of the 18th century there were in India some 994 coins, both gold and silver, varying in different degrees of weight and fineness. Naturally, this bewildering multiplicity of coins presented serious obstacles to the flow of

trade, both internal and foreign, which these troublesome times otherwise permitted. There was no such thing as general acceptability of coins. People had to test every coin before they could accept it on pain of being cheated by their clients.

History of Indian currency in the nineteenth century.

The history of Indian currency in the 19th century can easily be divided into the following four well-marked periods :

(a) 1800-1835—Attempt at unification.

(b) 1835-1874—Period of experiments.

(c) 1874-1893—Period of currency depreciation.

(d) 1893-1900—Abandonment of silver Monometallism.

(a) First Period :

Up to the second half of the 19th century, bimetallism was the fashionable monetary standard in Europe. Under it, both gold and silver coins circulated side by side and there was a fixed ratio between the two, the most usual ratio being 1:16. The East India Company was thus naturally influenced by the prevalent European notions and made efforts after efforts to introduce bimetallism into its own territories, but they all failed as the official ratio could not be maintained owing to the over-valuation of gold in the market and its under-valuation in the Mint. The East India Company thus had to fall back upon silver, though the circulation of gold coins was

encouraged, while no further attempt was made to maintain any particular ratio.

In 1818, in the Madras Presidency the silver rupee of 180 grains, 11/12th fine was adopted as the legal tender, though the gold Pagoda could be issued and received by the Government if the public wanted or offered it, at such rates as might be determined by a proclamation from time to time.

In 1823, the Bombay Presidency followed Madras by adopting the latter's rupee of 1818 and finally in 1835 the the same silver coin was declared to be the sole legal tender throughout the territories of the East India Company. Thus, after some abortive experiments with bimetallism, India was committed to silver monometallism with the usual facility of free coinage, which standard lasted up to 1893.

(b) Second period.

Although the silver rupee was adopted in 1835 as the sole legal tender throughout the territories of the East India Company, the experiment with gold circulation by no means ceased. The currency Act of 1835, for instance, authorized the coinage of gold mohurs and of other gold pieces, if required by the public. In 1841 the Company's Government went even further and it was notified that gold Mohurs would be accepted in payment of public dues at the rate of 1:15. The Australian and Californian gold discoveries of 1848 and 1849, however, led to a huge increase in the supply of gold with the consequent fall in its price. Gold thus became over-valued in the Mint,

and, according to Gresham's law, it displaced silver. The Government was faced with a continuous strain on its budget from which it could escape ultimately only by the demonetization of gold. But the demonetization of gold, though it saved the Government from one crisis, was by no means an unmixed blesssing. There was a great stringency of money in the market, as the supply of silver was falling while the public demand for money was increasing. The monetary scarcity was further intensified by the diversion of silver to non-monetary uses. Besides, there was no credit system on any considerable scale in those days, which might have offset to some extent the effects of a currency famine. Accordingly, some of the mercantile people resorted to gold ingots, of a particular weight and shape, which they used as media of exchange. On the other hand, a huge clamour was raised by the various Chambers of Commerce, demanding the immediate establishment of the gold standard, a demand which was all the more strengthened by the large importation of gold into India by way of payment for our huge cotton exports, following the American cotton famine during the sixties. In response to insistent public demand, the Government agreed in November 1864 to receive sovereigns and half sovereigns in payment of public dues and to offer the same to its creditors at the rates of 1:10 and 1:5 respectively. The ratios were slightly altered in 1868, so that the new ratios were 1:10½ and 1:5¼ respectively.

Meanwhile the Mansfield Commission had been set up to examine the whole problem of Indian currency. The Commission favoured the establishment of a currency

standard based on gold and silver. It also recommended that gold coins valued at 15, 10, and 5 rupees should be introduced and popularised in the country. But no action was taken by the Government on the Report of the Mansfield Commission. Lastly, in 1872 Sir Richard Temple submitted a Note to the Government demanding the establishment of a gold standard in India, but again to no effect. Thus the period of experiments ended with no substantial results.

(c) The Third Period. (1874-1893).

From 1873 onwards, the international status of silver became seriously affected which did not fail to have serious repercussions upon Indian currency and exchange. We have already referred to the great Australian and Californian gold discoveries during the later forties which largely increased the world's total stock of gold. As England had already adopted the gold standard after the close of the Napoleonic wars, Germany under Bismarck wanted to signalise her victory in the Franco-Prussian war by adopting the gold standard. The French war indemnities which were paid largely in gold, owing to the easy availability of gold, were of great assistance to Germany for the fulfilment of her monetary aspirations. In 1873, therefore, Germany abandoned bimetallism in favour of gold standard. Germany's example was soon followed by Norway, Sweden and Denmark. The Latin union was the last refuge of bimetallism in Europe; but the growing strain proved to be too much even for the Latin Union. Accordingly, silver was demonetized even in the Latin

Union. The rapid fall in the world value of silver which followed the abandonment of bimetallism in Europe naturally affected the status of silver all the world over. The U. S. A. repealed the Sherman Act absolving the American Treasury of its obligations to buy silver for monetary purposes. The last nail was thus hit on the coffin of international bimetallism.

In India, the progressive fall in the value of silver which began from 1873 had its natural repercussions upon Indian currency and exchange. The depreciating exchange naturally affected both the European traders and the Government's budget. Once more a great clamour was raised, demanding the closure of the Indian Mint to the free coinage of silver and the establishment of a gold currency standard. But once more the Government of India remained adamant on the ground of certain practical difficulties. The continuous strain, however, proved ultimately too much for the Government of India. An official representation was thus made to the Secretary of State for India for the abandonment of silver monometallism. But the India Secretary could not see his way to any compliance with the Government of India's request.

(d) The Fourth period. (1893-1900).

While the Government of India followed a policy of "splendid inactivity" the situation of the Indian rupee continued to deteriorate progressively. The repeal of the Sherman Act in the U. S. A. was followed by the summoning of an International Monetary Conference which, how-

ever failed to arrive at any decisions. Meanwhile the Herschell Committee had been appointed in India in 1892 to consider the currency and exchange situation of the country and to recommend proper remedial measures. The committee recommended the immediate closure of the Indian Mint to the free coinage of silver, the continuation of the rupee, now to become a taken coin, as an unlimited legal tender, the partial circulation of gold coins in the transitional period and the ultimate establishment of a full-fledged gold standard in India.

The Government of India for once accepted the recommendations of the Herschell Committee and the Currency Act of 1893 closed the Indian Mint to the free coinage of silver, while the Indian rupee was retained as an unlimited legal tender. At the same time, administrative Notifications were issued whereby the Government agreed to accept in payment of public dues sovereigns and half sovereigns at the rate of 1s.4d. to the rupee, and to issue rupees and notes against sovereigns and half sovereigns at the same rate.

The action taken in 1893 was avowedly opportunistic and transitional but it served its purpose. Exchange began to rise gradually until the ratio of 1s. 4d. per rupee was reached at which rate Indian prices were apparently adjusted to world prices. The immediate problem being successfully solved, the Government appointed the Fowler Committee in 1898 to make final recommendations as regards India's currency system. The Committee virtually recommended the continuation of the then existing Gold Exchange standard as a transitional measure with a view to

the ultimate establishment of a full-fledged gold standard based on the free outflow and inflow of gold. The recommendations of the Fowler Committee were accepted almost in their entirety by the Government of India, though, as we shall see later on, the official enthusiasm for the ultimate objective of the Fowler Committee, as of other previous committees and commissions, was destined to cool down after some time.

Before passing on to the study of our currency history in the 20th century, we shall now pause to analyse the main factors which led to the abandonment of silver monometallism in 1893 as well as the principal effects of such a decisive development.

Economic effects of depreciation in the value of the rupee.

(a) Strain on the Government of India.

The progressive deterioration in the exchange value of the rupee put a severe strain on the finances of the Government of India which had to discharge certain fixed annual sterling obligations known as the *Home Charges*. As exchange began to fall, the Government required increasing quantities of rupees to purchase equivalent sterling, which meant either increased taxation or an unbalancing of the Government's budget or both. As Sir David Barbour, India's Finance Member during 1888-1893 pointed out, even if exchange fell by a single penny, the Government's deficit would increase by more than Rs. 3 crores. Thus the Government's finances were entirely at the mercy of the exchange.

(b) **Effects on the people of India.**

The fall in the gold value of the rupee affected the people of India in diverse ways.

In the first place, as tax-payers, the people suffered on on the whole. As the Government increased the rates of taxes for balancing its budget, which was perpetually upset by the falling exchange, the people naturally suffered. On the other hand, it may be observed that the actual suffering of the people could not increase, in as much as rupee prices were steadily rising in India and as such increased money payments by way of taxation did not represent increased sacrifice in terms of commodities and services. But this argument assumed an exact correspondence between the fall in the gold value of silver and the fall in the internal purchasing power of the rupee, a correspondence which could hardly take place without some time-lag. Hence, there might be some sufferings in the short period, and as the rupee continued to depreciate over a long period, this maladjustment must have continued increasingly to prevail all the time.

Moreover, while there was a net increase in the tax burden, people who paid fixed revenues to the state, such as land-lords in the permanently settled areas. gained at the expense of the rest of the community.

Secondly, as producers and exporters, the Indian people gained, as the same amount of sterling in London meant more rupees in India. But this advantage to Indian exporters could last so long as the purchasing power of the rupee in India fell less than the gold value of silver. As

adjustment was bound to take place in the long run between the internal and external purchasing power of the rupee, this bounty upon Indian exports could only be short-lived.

On the other hand, however, the Indian people were losers as importers, as they had to pay more in rupees to purchase equivalent sterling in London. Theoretically, therefore, there should have been some check to our importers during this period. As a matter of fact, however, our imports also increased in quantity. The explanation ot this paradox is to be found in the fact that during this period the gold price of commodities was falling even more rapidly than the gold value of silver, so that on balance it paid India to import foreign goods. Nevertheless, though our actual imports did not dimininish and even somewhat increased. our potential imports would have been much greater, if we had been on tho gold standard. Hence we also suffered as importers on account of our adherence to the silver standard which prevented us from reaping the full advantage of cheaper commodity prices in the gold standard countries of the world.

(c) **Effects on Europeans.**

The era of depreciating exchange adversely affected the different classes of Europeans interested in India. It restricted the flow of European capital into India, as European capitalists did not know how much they would receive back from India in payment of interest and principal in terms of sterling. European exporters suffered as the same amount of rupees in India meant lesser

amount of sterling in London. This disadvantage, however, was partly offset by rising rupee prices in India. Lastly, European officials and businessmen in India suffered as they had to pay more rupees in India to purchase equivalent sterling in London which they required for making payments to their families in London. The prospect of bringing a large fortune with them to England on their retirement also became dark on account of the depreciating Indian exchange.

The abandonment of silver monometallism and after.

The abandonment of silver mono-metallism in 1893, and the retention at the same time of the Indian rupee as the sole unlimited legal tender throughout India led to highly interesting developments of the Indian currency. The rupee became a standard token currency, a sort of note printed upon silver, whose face value was much greater than its metallic value. Obviously, there was an element of opportunistic compromise in the Government's immediate policy. What the Government wanted was external stability of the value of the rupee. The experience of the last three decades has demonstrated beyond all possiblity of doubt that external stability could not be achieved so long as India was wedded to silver. Hence, the Government was determined to stop the free coinage of the rupee for all time and its fresh coinage indefinitely, until its value rose up sufficiently for the restoration of the old normal ratio between the rupee and the sterling. This

was the immediate programme and this programme was more or less fulfilled in a few years' time.

Once, however, the impending crisis was averted, speculation became rife as regards the future line of conduct. Schemes after schemes were drawn up, some of which deserve consideration. In this connection, we shall refer briefly to the three schemes drawn up by the Government of India, by Mr. Lindsay, Deputy Secretary and Treasurer of the Bank of Bengal, and by Mr. Hardy, Secretary and Treasurer of the Bank of Bengal respectively.

The scheme of the Government of India.

The Government of India seems to have definitely decided that the ultimate objective for India should be the full-fledged gold standard. At the same time, the Government was impressed by the difficulty of securing the necessary quantity of gold which the establishment of a gold standard required. Accordingly, the Government made the following suggestions :—

(a) Loans should be raised in London and a part of the money received should be brought back to India in the shape of gold.

(b) A certain number of rupees should be melted in order to contract the volume of currency with a view to raising its value to 1*s.* 4*d*,

(c) The silver bullion thus received from melting rupees should be sold for gold and the gold thus received should be added to the gold reserve for the ultimate establishment of the gold standard.

(d) The Government should never part with its gold until the exchange value of the rupee rises up to 1*s*. 4*d*.

The recommendations of the Government of India are clearly based on the central conception that the contraction in the volume of currency was the necessary condition for a rise in the exchange. But the Fowler Committe did not agree with this view and it maintained that the rise in exchange was due to more "complicated and obscure causes." The Committee further maintained that currency contraction would lead to great currency stringency which would raise much opposition from the commercial classes. Although we agree with the view of the Fowler Committee that currency contraction would lead to monetary stringency, we do not understand why it should not also be a powerful factor for raising the rate of exchange, although we admit that there might be other forces as well.

The Lindsay Scheme.

The Lindsay Scheme, though summarily rejected by the Fowler Committee, is highly interesting because it is the first systematic formulation of the gold exchange standard which was later on officially adopted by the Government of India.

The Scheme proposed that the rupee should always remain the legal tender in India, while sterling should be available in London against rupees in India at the rate of 1s.3¾d. Similarly, rupees should be available in India to an unlimited extent against the supply of sterling in London at the rate of 1s.4$\frac{1}{16}$d. per rupee. This exchange facility, however, should not be given to any applicant,

unless he offered at least £1000 in London or Rs. 15,000 in India.

The Scheme thus contemplated the maintenance of a gold reserve in London and a silver reserve in India. The gold reserve could be secured by floating a long-period loan in the London money market, while the silver reserve could easily be provided out of the Government's own vast silver resources in India. In case, however, too much sterling drafts were drawn and the rupee reserves of the Government of India became depleted, a part of the gold accumulated in London could be utilised for purchasing silver, which silver would be brought back to India for the purpose of fresh coinage of rupees. On the other hand if the gold reserve in London became depleted by the supply of too many rupee drafts, some portion of the accumulated rupees might be melted into silver and then the silver might be exported to London, there to be sold for gold. The gold so acquired might be put into the gold reserve in London,

Thus the scheme proposed to complete the process which began to operate since 1893. The Currency Act of 1893 was designed to prevent the rise in the value of the rupee above 1*s.* 4*d.* as sterling drafts could be sold to an unlimited extent in London against the supply of rupees in India. As the increased demand for rupees in London would be accompanied by an increased supply of rupees in India the value of the rupee would not rise much above the parity rate. Now the Lindsay scheme wanted the Government to supply an unlimited quantity of sterling in London against the offer of rupees in India.

This contingency would arise whenever India had an unfavourable balance of account. Unless the Government of India accepted such an obligation, there would be no guarantee against a fall in the exchange value of the rupee, whenever India had an unfavourable balance.

The Fowler Committee however, rejected the scheme on the ground that it would check the flow of British capital into India and that under it India's Gold Standard would rest upon the precarious basis of a few millions of sterling in London while the Government's obligation to supply sterling in London against rupees in India would be unlimited.

Scheme for the restoration of Silver.

Lastly, we might refer to an influential body of opinion held by Mr Hardy, Treasurer and Secretary of the Bank of Bengal; Mr J. Westland, the Controller and Auditor General and Mr. David Barbour, Secretary (finance and commerce) to the Government of India, who were strenuously opposed to the abandonment of silver in favour of gold. The last two gentlemen, however, changed their mind, once the closure of the Mint to the free coinage of silver, became an accomplished fact.

The arguments advanced in favour of this view may be briefly summarised as follows:

India has not much to gain from a Gold Standard, while she might lose much on account of her abandonment of silver. Depreciating exchange affects only the Government of India and those Europeans who want to settle in England after leaving India where they have

earned their all. Even as regards the Government, the loss is more apparent than real. As our sterling obligations are normally paid out of our export surplus, our facilities for paying them depend more upon the gold prices of our exports than upon the rate of our exchange. If the Government has to set apart a larger quantity of rupees to purchase the necessary amount of sterling, it can either resort to increased taxation or curtail its expenditure for that purpose, without doing much harm to the Indian people as a whole. The loss to the Europeans, both officials and non-officials, may be real, but for that they are mainly responsible. There would not have been any loss to them, if they regarded India as their permanent home. In any case, the Government has no right to make a fundamental alteration in the standard of value in the interest of a very small and microscopic European minority residing in India.

Recommendations of the Fowler Committee.

The Fowler Committee, as have already observed, was ultimately appointed in 1898 to consider the various schemes submitted by different authorities in India and to make its own recommendations. We have already noted the reasons which led the Fowler Committee to reject all those schemes. We now summarise the principal recommendations of the Fowler Committee.

The Fowler Committee was in favour of the establishment of a full-fledged gold standard in India, and with that objective in view, it made the following proposals :

(1) The Indian Mints, while closed to the fresh coinage of rupees until the exchange rises to 1s.4*d*. should be thrown open to the coinage of gold sovereigns and half-sovereigns.

(2) The exchange was to be established at 1s. 4*d*. per rupee.

(3) The rupee might continue to be the unlimited legal tender in India as long as the principle of limitation of issue was adhered to.

(4) The Government should undertake to give rupees against sterling but not sterling against rupees, as in the latter case the Government might be faced with a sudden demand for gold, which it might not be in a position to supply, except by fresh loans in the London money market raised at a high rate.

(5) The profits, arising out of any future coinage of rupees, should be set apart to constitute a gold fund, known as "Gold Standard Reserve", which was to be utilised in future for the establishment of a full-fledged gold currency system.

(6) Lastly, although the Government should not give any definite undertaking to convert rupees into sterling, it should try to make gold available for *external* purposes whenever possible.

Currency History. (1900-1913).

The first re-action of the Government of India to the recommendations of the Fowler Committee was almost wholly favourable. Sovereigns and half-sovereigns were declared to be legal tender throughout India and a Gold

Standard Reserve was formed in 1900 out of the profits of fresh coinage of rupees. Negotiations were also begun for the establishment of a gold mint in India, though they proved to be unsuccessful owing to the opposition of the British Treasury.

Before long, however, the Government policy began to deviate from the lines indicated by the Fowler Committee. The Committee had recommended that no fresh coinage of rupees should be undertaken until the proportion of gold coins in the Indian Currency system had exceeded the requirements of the public. The Government, however, after making a brief and half-hearted attempt to induce the circulation of gold coins, resorted to fresh silver coinage in order to relieve the growing monetary stringency, offering the unconvincing reason that Indians disliked gold. As Dr. Cannan put it, "that position has been maintained, not because Indians dislike gold, but because Europeans like it so well that they can not bear to part with any of it."

In any case, coinage of rupees on a fairly large scale was undertaken in 1900. The necessary silver was purchased in London out of the gold section of the Paper Currency Reserve in London.

Secondly, the original purposes for which the Paper Currency Reserve and the Gold Standard Reserve were created, came to be gradually lost sight of. The purpose of the paper currency reserve was to serve as a security for the convertibility of notes. The purpose of the Gold standard reserve was, as we have seen, to serve as a nucleus of gold reserves for the ultimate establishment of a gold standard in India. Both the reserves should have

been located in India. But as a matter of fact, by various administrative Acts, both came to be utilised for *all* conceivable purposes.

Policy as regards the Paper Currency Reserve.

The Paper Currency reserve, instead of being kept purely in the shape of rupees or silver in India, came to be increasingly kept in the shape of gold or gold securities in London to be utilised for the *following purposes* :

In the first place, whenever there was an unfavourable balance of trade for India or our usual favourable surplus balance became reduced in quantity, it became impossible or disadvantageous to sell Council Bills for securing the payment of the Home Charges. In such circumstances, the Secretary of State for India used the gold in the paper currency reserve for his own expenses, while an equivalent amount of rupees would be transferred to the silver branch of the paper currency reserve in India.

Secondly, the Secretary of State for India sold Council Bills in excess of his own requirements, whenever there was a large surplus to India's credit in order to prevent shipments of gold to India. By selling Council Bills, the Secretary of State interrupted the flow from London of gold that was India's due for the purpose of incorporation in the gold branch of the Paper Currency Reserve in London, while Indians would be paid in notes apparently to be backed by gold reseve in far-away London.

Lastly, whenever the necessity arose, gold was taken out of the Paper Currency Reserve in London for purchasing silver bullion which was sent out to India for coinage purposes.

The manifold purposes to which the Indian Paper Currency Reserve was devoted, clearly illustrate the unscrupulousness of the methods employed by our rulers in the management of our currency system. The only legitimate objective of the Paper Currency Reserve was to secure the convertibility of the rupee notes in all circumstances. But the Government manipulated our reserve in a manner that was least likely to maintain the convertibility of our notes in an emergency, and most likely to place our gold at the disposal of the London money market at the expense of India.

Policy as regards the Gold Standard Reserve.

If the policy pursued as regards the Paper Currency Reserve departed in almost every respect from the original intentions, the fate of the Gold Standard Reserve was hardly better. That Reserve, as we have already seen, was constituted out of the profits of coinage in 1900, according to the recommendations of the Fowler Committee. It was to consist of gold, to be located in India, to serve as a nucleus for increasing stocks of gold on the basis of which a full-fledged gold standard was to be established in India.

The Secretary of State for India, however, by various administrative Acts, completely revolutionised the nature of the Reserve. In the first place, he decided that the Gold Standard Reserve should be located in London and invested in sterling securities. The method by which this transmission of gold from India to London was effected was the withdrawal of gold from the Paper Currency

Reserve in London and fresh coinage of rupees in India out of the profits of coinage which were accredited to the Indian branch of the Paper Currency Reserve. Thus, the dual purposes of strengthening the silver branch of the Paper Currency Reserve and of transferring the Gold Standard Reserve to London were accomplished by a single stroke.

In 1906, the Government went a step further when it announced the creation of a silver branch of the Gold Standard Reserve, to be located in India. The purpose of the Government was to ensure the supply of an unlimited quantity of rupees in India against the supply of sterling in London. It was apparently considered that the silver branch of the Indian Paper Currency Reserve or the Government of India's Treasury balances were inadequate for this purpose. Thus the Gold Standard Reserve became a sort of *secondary* reserve for the purpose of maintaining the *artificial* rupee-sterling exchange.

Thirdly, in order to prevent effectively any shipment of gold to India, the Secretary of State for India began to offer Telegraphic Transfers against sovereigns in transit from Egypt and Australia to India, the rate being between 1*s*. 4*d*. and 1*s*. $4\frac{1}{32}$*d*., the price of 1*s*. $4\frac{1}{8}$*d*. not being found to be prohibitive of all gold exports to India, in order to induce the deversion of gold from India to London.

Lastly, and to crown all, following the recommendation of the Mackay Committee on Indian Railway Finance, (1907) the Secretary of State decided to spend on Railways one-half of the profits of coinage until the Gold Standard Reserve came up to £20 millions. This action on the part

of the India Secretary even exceeded the zeal of the Mackay Committee which recommended the expenditure of only a million sovereigns out of the profits of coinage and was directly against the opinion of the Government of India which condemned such diversion until the Reserve rose up to £20 millions.

Thus, the Gold Standard Reserve, like the Paper Currency Reserve, lost its original character as a result of a series of improvisations. It came to be variously utilised for supporting the exchange, for preventing the inflow of gold into India, for adding to the stock of gold in the Bank of England, and lastly even for financing the construction of Indian Railways. Moreover, about 1906-1907, there was hardly any appreciable distinction between the Paper Currency Reserve and the Gold Standard Reserve. Both constituted a sort of *joint fund* which, together with the balances of the Government of India and of the Secretary of State for India, came to be utilised for all conceivable purposes. The retention of the separate individual designations for the two funds was therefore not only meaningless but positively harmful to a proper understanding of their actual nature.

The crisis of 1907—8.

Up to 1907, this make-shift arrangement worked merrily from the official point of view. Every year, India had a favourable balance of accounts which gave the Government a golden opportunity not only to maintain a stable rate of exchange, but to add to the stock of gold in the London branches of the Indian Paper Currency

Reserve and the Gold Standard Reserve, while India was apparently satisfied with increased ownership either of rupee notes which could hardly be converted in case of a large scale demand or of rupee coins which were little better than notes printed on silver, there being a huge difference between their face value and their metallic value.

During 1907-8, however, there was a sudden set-back to this continuous tide of prosperity owing to crop failure at home and a general recession abroad. The result was a huge shrinkage of our exports which made India a net debtor. There was a great demand for sterling in India and the Exchange Banks urged the sale of telegraphic transfers on London. The Government of India at first refused to accept that proposal, although it expressed its willingness to part with gold (not more than £10,000 on any one day to any single individual) from the Paper Currency Reserve. As the situation, however, could not be controlled, the Secretary of State urged the Government of India to issue Telegraphic Transfer or Reverse Council on London at the rate of 1s. $3\frac{29}{32}$d. per rupee. The Secretary of State met this demand for sterling by utilising the gold and gold securities of the Paper Currency Reserve and Gold Standard Reserve in London, and ultimately by raising a sterling loan of £$4\frac{1}{2}$ millions. Thus, in a single adverse year, the Government not only lost a large part of its Gold Reserves, but also was saddled with a fresh debt of £$4\frac{1}{2}$ millions. In the following year, however, there was a favourable balance of payments and the Government breathed a heavy sigh of relief.

1907-8 to 1912-13.

The crisis of 1907-8, while it involved a heavy strain on the Government's resources, is, however, responsible for an important development in the direction of the Gold Exchange Standard towards which India had been moving almost unawares and inspite of herself since 1898. The precedent of giving rupees in India to an unlimited extent against sovereigns in London had been set fairly long while ago by the Secretary of State himself. This provided that the exchange could not rise above 1*s*. 4*d*. or thereabouts per rupee. But it was also necessary to provide means for preventing exchange from falling below 1*s*. 4*d*. or thereabouts. That was done when the sale of Reverse Councils on London was advised by the Secretary of State for India.

At the same time, however, it was not till the publication of the Report of the Chamberlain Commission in 1914, that there was any conscious and deliberate adoption of the full-fledged Gold Exchange Standard. Till then, the Government contented itself, by taking administrative remedial measures whenever some new situation arose imperilling the maintenance of the rupee-sterling ratio. The system, as a whole, does not appear to have been studied in full details, nor is there any indication of all the essentials of the Standard having been clearly understood by the Government. For instance, even after 1907-8 gold circulation in the Indian Currency system not only existed to some extent, but was even encouraged. Again, there was no uniformity of practice regarding the location of the Gold Reserve.

The crisis of 1907-8 was, as we have seen, responsible for a large depletion of the gold reserves of the Government. Hence, the Government was impressed with the necessity of increasing the stock of gold in the Gold Standard Reserve with the utmost rapidity. In 1909, they recommended to the Secretary of State that there should not be any division of the profits of coinage to the Railway fund until the Gold Standard Reserve reached the figure of £25 millions. The Government also recommended that reserves should be kept in a more liquid form in view of the fact that sterling securities had to be sold at a highly depreciated price during the crisis of 1907-8.

The Secretary of state, however decided that the total stock of gold in the Paper Currency and Gold Standard Reserves should reach £25 millions and not the Gold Standard Reserve alone; and further, that only £1 million should be kept in liquid form, being kept invested in short-period loans on approved securities to approved borrowers.

It was only in 1912 that the Secretary of State thought it proper to defer to the wishes of the Government of India and decided that £ 25 millions should be the minimum standard for the Gold Standard Reserve out of which £5 millions should be kept in an absolutely liquid form.

The recommendations of the Chamberlain Commission.

The wide departures of actual Government practice from the recommendations of the Fowler Committee and the Government's own professed intentions to implement

the same, naturally came in for severe public criticisms. Hence the Government was persuaded to appoint a Currency Commission with Mr. (afterwards Sir) Austen Chamberlain as Chairman, for reviewing the whole position and for making recommendations. The Commission submitted its Report in 1914.

Broadly speaking, the Commission gave its official *imprimatur* to the diverse, make-shift arrangements that the Government introduced from time to time in the Indian Currency system. The main observations and recommendations of the Commission may be summed up as follows.'—

(i) Stability of exchange is of the highest importance to India.

(ii) That stability has been virtually secured by the policies pursued by the Government since 1898. The crisis of 1907-8 was a severe test of the efficacy of the Government policy and that test was successfully encountered.

(iii) The only difficulty that has been experienced has been due to the ignorance betrayed by the Government and the Secretary of State as regards their proper conduct for working the new standard. The Gold Standard Reserve has been generally regarded by the Secretary of State as a reserve to fall back upon when Council Bills could not be sold for meeting his own sterling obligations, though the actual purpose of the Reserve was to secure the convertibility of rupees into sterling at a rate not lower than 1*s*. $3\frac{29}{32}$*d*. per rupee, whenever exchange fell below the specie point. This being the normal

function of the India's gold reserve, there was no point in keeping any amount of gold in India proper. Similarly, the Government erred in encouraging any circulation of gold in the Indian Currency System. Then follows the most notorious statement that the people of India neither desired nor needed any considerable amount of gold for circulation as currency, and that the currency most generally suitable for the internal needs of India consisted of notes and rupees. Another charactersistic observation of the Commission was that the history of the last fifteen years conclusively proved that a gold currency in active circulation was not an essential condition of the gold standard which had been firmly established without this condition.

(iv) While the Government should encourage the use of rupees and notes and discourage circulation of gold, the Commission, however, observes that if Indian sentiment so demands, a gold Mint may be established, or in the alternative, refined gold should be available at the Bombay mint against local currency.

(v) No limit should be fixed to the amount of gold that may be accumulated in the Gold Standard Reserve. For some time, therefore, profits of coinage should be wholly accredited to that Reserve. It is also essential that a considerable portion of the Reserve should remain in a liquid form.

(vi) The Paper Currency Reserve should be utilised for its normal functions as a rule. It might be invoked for the support of the exchange only in so far as the Gold

Standard Reserve may prove to be inadequate for that purpose.

The Chamberlain Commission, while it earned a good deal of notoriety for itself, by giving official blessings to the nondescript currency system, brought into existence by a series of compromises and patch-work arrangements, nevertheless rendered some service to India by condemning the reckless manner in which the Paper Currency Reserve and the Gold Standard Reserve were being employed by the Government. The Commission who deserves some credit for its frank avowal of a Gold Exchange Standard as India's ideal currency standard, although its enthusiasm for that ideal induced it grossly to misrepresent the Indian sentiment which, it impudently declared, did not want the actual circulation of gold coins.

Mechanism of the Gold Exchange Standard in the Pre-war period.

Before passing on to the complicated developments of our currency and exchange during the war, we now propose to give a brief resume' of the Gold Exchange Standard which virtually came into existence in India since 1898.

(1) The Gold Exchange Standard, as distinguished from the Gold Standard Proper, requires the use of two distinct currencies, one for *internal* use, and the other for *international* purposes. In India, the internal currency was the silver rupee which became a token coin since 1893, when the Indian Mint was closed to the free coinage of silver. But the rupee, though its face value was much greater than its metallic value, was the unlimited legal

tender throughout India. Hence, the rupee became the standard token coin. But a depreciated and depreciating domestic metallic coin cannot have a fixed international value. Hence for external purposes, there was sterling or gold which was available against rupees to an unlimited extent, and *vice versa*, at the fixed rate of 1*s*. 4*d*. or thereabouts. As under a pure gold standard, there is a *par rate of exchange* and the two gold points within which the actual rate of exchange must lie; similarly under the Sterling Exchange Standard (which was virtually the Gold Exchange Standard in those days, as sterling was as good as gold), the par rate of exchange was the rate of 1*s*. 4*d*. per rupee, while the upper and the lower limits corresponding to the two gold points were 1*s*. $4\frac{1}{8}$*d*. and 1*s*. $3\frac{29}{32}$*d*. respectively.

(2) The Gold Exchange Standard was thus a managed standard. It could exist only so long as the Government could fulfil its obligations of giving equivalent gold or sterling against rupees at a rate not lower than 1*s*. $3\frac{29}{32}$*d*. per rupee, and to an unlimited extent; and of giving rupees against sterling at a rate not higher than 1*s*. $4\frac{1}{8}$*d*. per rupee, and that too to an unlimited extent. The question is, how did the Government succeed in doing so? To answer this is to explain the mechanism of the Gold Exchange Standard.

At this stage, it is well to remember certain basic facts of India's financial relations with the outside world. Normally, India exports more than she imports, and is thus a net creditor. On the other hand, India has to pay annually a large sum of money known as Home Charges

India's exports normally pay both for her imports and her Home Charges, leaving some surplus still to her credit, Hence, even if we reckon the *balance of payments* rather than the *balance of trade*, there is, in normal circumstances, a greater foreign demand for Indian currency than the Indian demand for foreign currency or currencies. Hence, the normal tendency for the Indian exchange is to *rise above* 1*s*. 4*d*., the par rate. The Governme t's problem, therefore, was to find out ways and means for preventing the rate of our exchange from rising above 1*s*. 4⅛*d*. The steps taken by the Government for this purpose were as follows :

First, a declaration that sovereigns and half-sovereigns would be accepted in payment of all Government dues ;

Secondly, the declaration of the Government's willingness to give rupees and rupee-notes against sovereigns, and half-sovereigns at the rate of 1*s*. 4*d*. per rupee ;

Thirdly, the issue of Council Bills by the Secretary of State for India, payable in rupees in India against sovereigns in London at a rate not higher than 1*s*. 4⅛*d*. per rupee. So far as the last item is concerned, we know that originally Council Bills were sold by the Secretary of State for India, for securing the payment of the Home Charges. Later on, however, Council Bills came to be sold indiscriminately and to an unlimited extent whenever foreigners were anxious to purchase rupees and sometimes even to induce India's foreign debtors not to send gold to India. Council Bills were normally purchased by the foreign importers of Indian goods, and occasionally by foreign capitalists who wanted

to transfer their capital to India for investment either in rupee loans or in business undertakings in India. The foreigners paid sterling in London for purchasing the Council Bills and they received rupees in India at an approximately fixed rate from the Government of India. When Council Bills were sold for the fulfilment of the Government's sterling obligations, rupees were released in India out of the Government's Treasury balances. When, on the other hand, they were sold for the support of the exchange, rupees had to be released either out of the rupee section of the Indian Paper Currency Reserve or out of the silver section of the Gold Standard Reserve. In any case, the net result of all sales of Council Bills was to increase the volume of rupee circulation in India, and this naturally tended, according to the Quantity Theory of money, to counteract the rising tendency of the Indian exchange.

We have thus seen how the Government *prevented* an undue *rise* in exchange, following *a favourable* balance of accounts for India. We shall now see how the Government succeeded in *preventing* an undue *fall* in the exchange value of the rupee, when, for instance, India happened to be a net *debtor.* As India has normally a favourable balance of payments, this contingency was not at first considered by the Government. The crisis of 1907-8, however, proved to be an eye-opener in this respect. The Government of India at first got confused and tried to meet the situation by offering gold at a fixed rate, subject to certain conditions. Later on, however, the Secretary of State for India hit upon the appropriate

solution from the stand-point of the Gold Exchange Standard. Following his advice, the Government of India declared its willingness to sell Reverse Councils on London at a rate not lower than 1*s.* $3\frac{29}{32}$*d.* per rupee. The necessary amount of sterling was paid out of the Secretary of State for India's Treasury balances, the gold section of the Indian Paper Currency Reserve, the Gold section of the Gold Standard Reserve, and ultimately out of fresh sterling loans. On the other hand, the sale of Reverse Councils in India involved the withdrawal of so much rupees and rupee-notes from active circulation in India, a withdrawal which could not but help to *raise up* the exchange value of the rupee. In this way, the Government managed to *prevent* the rupee-sterling ratio *from falling* below 1s. $3\frac{29}{32}$d. per rupee.

Conclusions.

The Gold Exchange Standard, as it prevailed in India before the war, thus necessitated the maintenance of *two* kinds of reserves. There was a large reserve of *silver* in India for converting sterling into rupees, and a large reserve of *gold* in London for converting rupees into sterling. These reserves, as we have already seen, were comprised, in practice, in a variety of funds: The Treasury balances, the Paper Currency Reserve and the Gold Standard Reserve,—all these three *distinct* types of funds, both in India and London, technically allocated to diverse ends and functions, were unscrupulously utilised, whenever the necessity arose, for maintaining a stable exchange ratio. That maintenance of this patch-work arrangement endangered

the convertibility of the rupee-notes, or involved a transference to London of India's potential gold reserves upon which alone a true gold standard for India could be built up in future, did not deter the Government from clinging fast to it, so long as exchange stability was maintained, and so long as the London money market got the benefit of India's gold. The bitter experience of 1907-8 when the Government had to part with a large quantity of gold in exchange for depreciated silver coins at their artificially raised face value, of course, caused a momentary stir in the Government's mind. But the succeeding years, with their presents of magnificent export surpluses, revived the old buoyancy and enthusiasm in the official mind. The Great war, however, which followed closely on the heels of the Chamberlain Commission's Report of benediction and eulogy of the Gold Exchange Stadard, revealed a new and altogether unexpected threat to the Indian currency system, which, like the German submarines torpedoed, the whole machine, and years were to elapse before any order could be evolved out of our currency chaos.

Indian Paper Currency System in the Pre-war Period. 1809—1861.

Before the passing of the Paper Currency Act of 1861, note-issue in India was comparatively unimportant, being the privilege of the three Presidency Banks of Bengal, Bombay and Madras, with a circulation practically con-

fined to the three Presidency towns. These notes were encashable on demand and subject to restrictions both as regards their maximum issue and reserves.

It was in 1860 that Mr. James Wilson, India's first Finance Member, first conceived the idea of separating the function of note-issue from banking proper according to the principles of the English Bank Charter Act of 1844. Of course, as India did not possess any Central Bank of the type of the Bank of England, it was contemplated that the Government should undertake the responsibility for note-issue.

Accordingly, in 1861 the first Paper Currency Act was passed. That Act represented almost a slavish imitation of the British Note-issue system as established by the Bank Charter Act of 1844. The fixed fiduciary system was adopted, the fiduciary limit being Rs. 4 crores, backed by Government of India rupee securities. All notes in excess of this fixed limit were backed by equivalent reserves either in coin or bullion. But with this resemblance with the British system, certain peculiarities were introduced. India was divided into three *circles of issue* with their headquarters in the three Presidency towns. Notes were issued in various denominations varying from Rs. 10 to Rs. 10,000, but they were declared to be unlimited legal tender, but only within their respective circle of issue. Notes could be issued to an unlimited extent to the public in exchange for rupees or British gold coins, and to the Controller of Currency in exchange for gold bullion.

The circle system was introduced in order to save

the Government from the obligation to send large amounts of cash from one place to another to facilitate the conversion of notes in every Government Treasury or at least in the different Provincial headquarters. Even if notes were declared to be universal legal tender, but encashable only at the provincial head-quarters, there would have been some premium on coin in the mofussil areas. On the other hand, the circle system seriously affected the popularity and usefulness of notes, as payments over large distances could not be effected by the sending of notes.

The Paper Currency Act of 1861 was defective in various ways. In the first place, the adoption of the fixed fiduciary reserve system after the British model caused a great stringency in the Indian money market. The Government of India in its zeal for the British system forgot to notice the fundamental fact that Britain possessed an elaborate and highly developed banking system which could easily counteract the evil effects of an inelastic currency note-issue system while India enjoyed very little banking facitities. In the absence of developed deposit banking, the fixed fiduciary reserve system was the worst thing for India to adopt.

Secondly, the circle system of note-issue also impaired the popularity of notes. Great inconvenience was experienced in encashing notes when people moved from one centre to another, although Government Treasuries undertook to cash notes of other circles for *bonafide* travellers and Railway Companies.

In any case, the need for some modifications of the

Paper Currency Act of 1861 came to be felt with the passing of years. The fiduciary issue limit was increased from Rs. 4 crores to Rs. 6 crores in 1871, to Rs. 8 crores in 1890, to Rs. 10 crores in 1897, to Rs. 12 crores in 1905 and to Rs. 14 crores in 1911. Similarly, there was a movement for the gradual universalisation of Indian notes. In 1903 the five rupee note was declared to be a universal legal tender throughout India, except in Burma, this restriction being removed in 1909. In 1909 ten rupee and fifty rupee notes were similarly universalized and the power was taken by the Government to universalize notes of even higher denominations by executive order. Lastly, In 1911, the 100 rupee note was declared to be the universal legal tender. The gradual universalisation of notes naturally increased their popularity which was further enhanced by the provision of extra legal facilities for encashment in the different Government treasuries and in the different Presidency Banks with their branches.

Composition of the Pre-war Paper Currency Reserve.

We have already noted that the Paper Currency Act of 1861 provided for equivalent backing in bullion or coin of all notes except Rs. 4 crores which were to be backed by the Government of India rupee Securities. Up to 1905, by which time, as we have already seen, the fiduciary limit had been increased to Rs. 12 crores, rupee securities alone were kept against the fiduciary portion of the notes issued. But the currency Act of 1905 permitted the

holding of sterling securities in England up to the value of Rs. 2 crores which was increased to Rs. 4 crores in 1911 so far as the invested portion of the reserve was concerned.

As regards *metallic backing*, up to 1898 the whole of the Paper Currency Reserve except, of course, the invested portion, was held in rupee coins in India. The Gold Note Act of 1898, however, authorised the holding of any portion of the metallic reserve in gold coin. The Act of 1900 authorised the holding of a part of the gold reserve in London. The Act of 1905 completed the process by empowering the Government to hold the metallic reserves or any portion thereof in gold bullion or gold coin or both and in silver bullion, or silver coin or both, or exclusively in gold or silver, subject to the condition that all coined rupees were to be held in India only. As a result of the adoption of this new principle, our total metallic reserves in 1914 consisted of Rs. 20·53 crores of silver and Rs. 22·44 crores of gold, both located in India, and of Rs. 9·15 crores of gold located in London.

Criticisms.

Our pre-war currency reserves were easily open to many severe criticisms.

(1) *In the first place*, there was an unduly large metallic backing which came to about 80% in 1913-14 compared to an average of 67% between 1862-71, of 51% during 1872-81 and of 67% during 1882-1901. In particular, there was a gradual diminution of the fiduciary proportion to the total of notes issued, as notes became more

and more popular along with their gradual universalisation. The reasons are not altogether to be found in India's adherence to the fixed fiduciary reserve system, as special legislations were passed from time to time to increase the fiduciary portion to some extent. The principal reason was that since 1898 the Indian Paper Currency Reserve was called upon to discharge an altogether different and un-natural function, namely to act as the *first line of defence* for the maintenance of the rupee-sterling exchange. It is for this new function that our reserves were kept in an *overwhelmingly liquid* metallic form which was not only uneconomical but also responsible for chronic inelasticity in our currency system. On the other hand, however, the convertibility of our notes was not always ensured by this maintenance of huge metallic reserves. The decision to locate in London an increasing proportion of the gold branch of our paper currency reserve was perhaps a wise one from the point of view of exchange stability, but it was never likely to inspire much public confidence in the safety of the notes. The proper function of the Paper Currency Reserve was to ensure the convertibility of notes. That function could be fulfilled if all the metallic reserves were in silver located in India. The Government, however, began to keep the reserves increasingly in gold from 1898 onwards so that by 1912 the total amount of gold reserves in the India Paper Currency Reserve came to Rs. 31·88 crores as against Rs. 15·48 crores of silver. There was also a tendency to keep an increasing proportion of the gold reserves in London. Thus all considerations of a safe and elastic note-issue

system were sacrificed at the altar of an artificial rupee-sterling exchange the stability of which became the paramount objective of the British Government and of Britishers in general in India.

(2) *Secondly*, the Government has been criticized for keeping a part of the invested reserve in sterling securities, when rupee securities were the ideal form of investment from the stand-point of the convertibility of notes. The official justification was that sterling securities would be maintaining the exchange value of the rupee as they might be sold in an emergency to meet an excessive demand for sterling in a bad year; and also that they were safer forms of investment, free from the possibility of depreciation on account of an internal crisis in India. The obvious reply to such apologetic arguments is that the maintenance of exchange was no part of the business of the Paper Currency Reserve and that depreciation might as well take place in the value of sterling securities on account of an internal crisis in England.

Concluding remarks on the Pre-War Paper Currency system

From the above account of the composition and location of our pre-war Paper Currency Reserve, it is clear that our note-issue was neither elastic nor very safe. The inelasticity of the Paper Currency, however, was not due exclusively to the fact of our adherence to the fixed fiduciary reserve system, nor even to the fact that the ratio of the invested portion of the reserve to the total metallic reserve was allowed to decline owing to the

exigencies of the Gold Exchange standard which came into being from 1898 onwards. There were other contributory causes too, among which are to be mentioned (a) the absence of any provision for the issue of temporary or emergency notes against agricultural or commercial bills of exchange, (b) the Reserve Treasury system under which a large part of the circulating money was locked up in Government Treasuries when public dues were paid to the Government. The separation of note-issue from banking functions had similarly an unfavourable effect on the problem of price-stabilisation, as the two functions were entrusted to two distinct authorities. Lastly, the lack of banking habits and of adequate banking facilities added further to the monetary stringency occasioned by the inelastic Paper Currency system.

The only elasticity that the currency system enjoyed was due *first* to the transformation of the rupee into a token coin since 1893 which made it possible for the Government to provide a larger number of silver coins out of a given amount of gold, and *secondly*, to the sale of Council Bills in England or the importation of sovereigns into India, both of which necessitated the creation of additional notes or of additional rupees.

Indian Currency and Exchange during the War.

The immediate re-action.

The outbreak of the Great War in August 1914 gave a great shock to confidence and had a very dislocating effect on Indian trade and business. There was a great

run on the Savings Banks, and a great demand for the conversion of notes into gold. There was also a general weakening of the exchange, following a set-back to our export trade. Reverse Councils valued at £8 millions had to be sold before exchange became strong again. Similarly, Rs. 8 crores had to be withdrawn from the Savings Banks, and notes valued at Rs. 10 crores had to be encashed, before there was a restoration of confidence.

However, the determined way in which the Government met the situation as well as the increased foreign demand for Indian exports from autumn 1915 caused a turning of the tide.

From the autumn of 1915 onwards, there was a recovery of Indian exports following increased Allied demand for Indian exports, while Indian imports from foreign countries diminished for various reasons. Thus there was a huge export surplus to India's credit.

Secondly, the Government of India had to finance on behalf of His Majesty's Government practically all the military and civil expenditure in the eastern theatres of War and in the occupied territories. Lastly, the Government of India had also to finance purchases in India on behalf of several Dominions and Colonies. All these as well as purchases of Indian produce by African importers created a huge demand for the Indian currency. Accordingly the Secretary of State for India began to sell council bills on a very large scale. It became, therefore, necessary for the Government of India to resort to the coinage of rupees on an extensive scale.

Rise in the price of silver.

The extensive demand for rupee coinage in India necessarily created a great demand for silver in the world market. In other countries also, particularly in China, there was an increased demand for silver, as the belligerents were all anxious to conserve their gold resources. On the other hand, there was a shortage in the world supply of silver owing to internal disturbances in Mexico, a great silver producing country, and a rise in the cost of silver mining. All these factors caused a great rise in the world price of silver. In India, the rupee price of silver even rose higher than the gold price of silver, as the rupee was linked to sterling, and as the dollar-sterling exchange moved against England owing to England's excessive War time purchases of American goods inspite of vigorous efforts to peg the exchange.

The result was that in August 1917 the metallic value of the rupee exceeded its mint value. Rupees therefore began to be melted inspite of prohibitory measures passed by the Government. This, in its turn, increased the demand for silver thereby raising its price. To meet this new menace, the Government had already taken certain remedial steps. In December 1916, the sale of Intermediate Councils had been stopped, while certain restrictions had been imposed on the sale of Council Bills. In January 1917, exchange was fixed at 1*s*. 4½*d*. in the place of the old maximum rate of 1*s*. 4⅛*d*. while the sale of Council bills was confined only to certain selected banks and firms which were mainly entrusted with the obligation of

financing the export of War materials to the Allied countries at prescribed rates.

All these measures, however, proved to be only of temporary value as economic forces, noted above, continued to raise up the price of silver. After August 1917, the price of silver exceeded 43 pence per ounce (which was the bullion par of the rupee) and accordingly the Government was faced with a heavy loss in maintaining the existing rupee-sterling exchange. On August 28, 1917 the official rate of exchange was raised to 1s. 5d. and it was announced by the Government that in future the rate of exchange could be based on the changing sterling price of silver. Thus the machinery of the sterling exchange standard so laboriously built up since 1898 and at the expense of all other considerations, and so loudly praised by the Chamberlain Commission of 1913-14, virtually broke down due to the meteoric rise in the value of silver.

Before describing other war-time measures taken by the Government of India, we shall briefly refer to the subsequent trend of the price of silver. In September 1917 the price of silver rose to 55 pence per ounce. Alarmed at this phenomenal rise, the Governments of the United Kingdom, the U. S. A. and Canada instituted a joint control over the trade in silver by prohibiting all silver exports except under license and subsequently except at a specified price. These controlling measures were successful in keeping down the price of silver within the limits of 41 and 49 pence. In May 1919, however, both the U.S.A. and the United Kingdom withdrew this control.

This development, taken in conjuction with the withdrawal of the pegging measures applied to the dollar-sterling exchange in March 1919, raised the price of silver to soaring heights. The price of silver rose up to 58 pence in May 1919, to 78 pence in the month of December, and touched the record level of 89 pence in February 1920. Corresponding to this increasing price of silver, the rupee-sterling exchange rose to 1*s.* 6*d.* in April 12, 1818; to 1*s.* 8*d.* in May 13, 1919; to 1*s.* 10*d* in August, 12, 1919; to 2*s.* in September 15, 1919; to 2*s.* 2*d.* in November 22, 1919 and to 2*s.* 4*d.* on December 12, 1919. The highest rate was reached in February 12, 1920 when the exchange stood at 2*s.* $10\frac{21}{32}$*d.*

Other war-time measures.

(a) The phenomenal rise in the price of silver led to other war-time measures calculated to keep down the price of silver directly or indirectly. In September 1917 the Government prohibited the importation of silver on private account in order to prevent competition between the Government and the private individuals in the purchase of silver.

(b) Negotiations were begun with the Government of the U. S. A. which resulted in the passing of the Pittman Act which permitted the sale of the American silver reserves. This enabled the Government of India to purchase 200 million ounces of silver at $101\frac{1}{2}$ cents per ounce (fine).

(c) Melting and exportation of gold and silver coins in India were prohibited by law. This measure was calcu-

lated to conserve India's silver resources as well as to economise in the use of silver.

(d) Notes of the denominations of Re. 1 and Rs. 2½ were issued also as a measure for economising in the use of silver.

(e) Subsidiary nickel coins of the denominations of 2as., 4as. and 8as. were issued also for the same purpose.

(f) From June 1917 Government began to purchase gold imported on private account at a price based on the rupee-sterling rate, irrespective of the existing premium on gold, and notes were issued against the gold so acquired or gold sovereigns were coined for the purpose of circulation as money. This measure was also meant for the same purpose. From June 1919 when all restrictions on the exportation of gold were removed in the U. S. A., Australia and South Africa, there were increased gold imports into India, and the Government began to acquire that gold at a price which covered the existing premium on gold for the purpose of selling it to the public once in a fortnight. This measure was taken in order to lower the premium on gold in India, which was necessary in order to induce the circulation of gold coins.

(g) A large quantity of notes was issued without proper metallic backing, while restrictions were imposed on the convertibility of notes such as the withdrawal of the extra-legal facilities for conversion, and limitation of the amount of rupees payable to any single tenderer of notes on any particular day. Thus notes became virtually inconvertible, though no such official declaration was made. This was also a measure of economy in the use of silver.

(h) *Lastly*, in order to meet the heavy war-time expenditure without occasioning extraordinary demand for currency, the Government reduced the ordinary and capital expenditure to the lowest point possible, while a large part of the circulating money was withdrawn by means of increased taxation, flotation of large rupee loans which yielded a total sum of Rs. 130 crores in 3 years, and the selling of Treasury bills.

Thus the Government took extensive and elaborate measures for mitigating the effects of a great rise in the value of silver. If it did not succeed, it was primarily because of the overwhelming strength of the economic forces which were at work.

Effects of the war on Indian Paper Currency.

The Great war which wrought so much havoc on the rupee sterling exchange was also destined to create tremendous changes in the Indian Paper Currency system. We have already noticed the war-time circulation of notes of the denominations of Re. 1 and Rs. 2½. We have also seen how notes became virtually inconvertible owing to the various restrictions imposed on their encashment, which resulted in a discount of as much as nineteen per cent in their value in certain places. Other notable developments may be summarised as follows :—

(a) Excessive issue of paper currency, as a sufficient amount of rupees could not be coined owing to the high price of silver.

(b) A great increase in the amount of the fiduciary reserve which rose up, as a result of the passing of succes-

sive Acts, from Rs. 14 crores in 1911 to Rs 120 crores in 1919.

(c) Corresponding to this increase in the amount of the fiduciary reserve, there was a marked decrease in the proportion of the metallic reserves which came down from 79 per cent in 1914 to 50 per cent in 1919, though there was an increase in the absolute amount of the reserves. Another noticeable feature of the metallic reserves was the greater proportion of gold reserves compared to silver, and the virtual concentration of gold reserves in India.

(d) As regards the fiduciary reserve, the temporary Paper Currency Amendment Act of September 1919 laid down that Rs. 100 crores out of a maximum of Rs. 120 crores had to be invested in British Treasury bills. In 1920, however, the restrictions on the *locale* and *character* of the investment were abolished, primarily because Reverse Councils were sold in large quantities compelling the Secretary of State to sell sterling securities out of the Indian Paper Currency Reserve in London. This necessitated the withdrawal and cancellation of equivalent currency notes in India at the rate of Rs. 15 per £ 1.

The recommendations of the Babington Smith Committee.

The wide-spread dislocation of Indian Currency and Exchange brought about by the War led the Secretary of State for India to appoint an expert Committee presided over by Sir Henry Babington Smith for making recommendations regarding the future policy to be adopted

as regards Indian currency and exchange. We summarise below the principal recommendations of the Committee :—

(1) The rupee unchanged in weight and fineness, should remain the unlimited legal tender in India.

(2) The exchange value of the rupee should remain fixed at 2*s*. gold.

(3) The sovereign should also be regarded as the unlimited legal tender in India at the rate of Rs. 10 per sovereign.

(4) The import and export of gold should be freed from all restrictions as soon as the new ratio between the rupee and the sovereign is adopted, and a gold mint should be established at Bombay for coining gold, tendered by the public, into sovereigns.

(5) There should be free importation and exportation of silver and the import duty on silver should be abolished as soon as the finances of the Government will permit.

(6) The Government should withdraw its undertaking to give rupees for sovereigns.

(7) The amount of gold in the Gold Standard Reserve should be increased considerably, but not more than 50% of the total amount of gold should be located in India. The remaining portion of the Reserve should be held in short-dated securities maturing within a year issued by Governments within the British Empire (other than the Government of India)

Arguments advanced in support of the recommendations.

The principal recommendation of the Smith Committee is concerned with the exchange value of the rupee. The phenomenal rise in the price of silver, which the Committee believed had come to stay, if it was not to continue to increase further, ruled out the possibility of a restoration of the old rate of 1s. 4d. Of course, the old rate could be maintained if the rupee could be devalued either by reducing its weight or its fine-ness, or if nickel rupees were issued in supression of the existing silver rupees, or if paper money, either partly or wholly inconvertible, were issued as long as the price of silver continued to be high. But the Committee rejected all these proposals as likely to cause much damage to the Government's credit and to cause much hardships, and inconvenience to the public. Above all, in the opinion of the Committee, there was hardly any possibility of popular acceptance of inconvertible paper money.

The Committee, therefore, was in favour of accepting the then existing exchange value of the rupee which was nearly 2s. gold. In arriving at this decision, the Committee was actuated by several economic considerations. A high rate of exchange would bring about a fall in prices which would be of inestimable boon to the Indian consumers in general and the poor people in particular. It would also benefit Indian producers as they would get foreign machinery and foreign stores at cheaper prices in terms of rupees. Indian manufacturers would

also gain as they would not have to pay higher money wages which would have been demanded if there were a rise in the cost of living following a low rate of exchange. Above all, the Government would gain tremendously from the high rate of exchange. There would be an annual saving of Rs. 12½ crores in respect of the Government's sterling obligations. This, in its turn, would serve either to reduce the burden of taxation or to increase the Government's beneficent expenditure, or both.

Of course, there was a dark side of the shield. Indian exporters might lose as they would get Rs. 10 instead of Rs. 15 for every (gold) pound worth of goods sold abroad. But the loss would be much less than it was expected as there was a great foreign demand for Indian raw materials and food stuffs. The Government would also lose on account of its gold and sterling investments in London which would now be equivalent to a smaller amount of rupees. But then the Committee observed that the whole of this loss would be wiped out by the savings to be effected in the Home Charges within three years. Hence the benefits to be derived from the new rate were much greater than the losses that were likely to ensue.

Lastly, the Committee explained its preference for linking the rupee to gold instead of sterling on the ground that the dollar-sterling rate might become weaker resulting in an enhanced sterling price of silver. Hence if the rupee were to be linked to sterling, the rupee price of silver might increase indefinitely which might again result in the melting of coins. The Committee believed that if the rupee were linked with gold, if there were no restric-

tions on the import and export of gold and silver, if the gold sovereign were declared to be legal tender in India, if a gold mint was established in India, the new rate of 2*s*. gold would no longer be threatened. Moreover, when both the rupee and the sovereign were declared to be unlimited legal tender, it was perfectly natural that the rupee should have a fixed gold value instead of a fixed value in terms of sterling which was then a depreciated paper money with liability to still further depreciation.

Criticisms of the Smith Committee's recommendations.

The most vigorous criticism of the principal observations and recommendations of the Smith Committee was offered by Mr. Dalal, a member of the same Committee, in a minute of dissent.

In Mr. Dalal's view, the rise in the price of silver which gave the Committee the necessary pretext for raising up the exchange value of the rupee to 2*s*. gold was entirely artificial. It was due to the continuing embargo on the export of silver, even though the war was over, which made India a potential buyer rather than a seller of silver, thereby inflaming the world's silver market.

Secondly, Mr. Dalal contended that no case was made out for over-valuing the rupee in order to deflate Indian prices, as the War-time and Post-War inflation in India, unlike the inflation in the other belligerent countries, was

not a genuine or true inflation. It was due to the fact that India's increasing foreign balance owing to her increased exports could not be absorbed in any other shape except those of additional rupees and rupee-notes. There should have been no inflation if the Government made an endeavour to encourage the Indian purchase of foreign securities or at least of the Indian sterling loans held in London.

Lastly, Mr. Dalal contended that it was extremely undesirable to make a drastic alteration in the country's monetary standard for the sake of exchange stability which was likely only to benefit the foreign exporters to the Indian market. The alleged benefit to the Government would be wiped out by the under-valuation of Indian gold and sterling securities held abroad. On the other hand, Indian exporters and manufacturers would lose tremendously for the benefit of foreign exporters and foreign manufacturers. Above all, a monetary standard which serves as a measuring rod for the discharge of obligations between different classes of creditors and debtors, can not be arbitrarily altered without causing serious unnecessary losses and inconveniences to some people, and equally undeserved gains to other classes of people. It was for the trade to accommodate itself to the standard and not the other way round. Mr. Dalal even went as far as to say that even debasement of the rupee currency would be preferable to the proposed high exchange rate, if exchange stability was to be achieved by all means.

Concluding remarks.

The Indian point of view has been on the whole, strongly emphasised in Mr. Dalal's famous minute of dissent, although we do not agree with it in every detail. In our opinion, it was extremely foolish on the part of the Government to try to fix an exchange value for the rupee at a time when the economic and monetary equilibrium of the world was far from being restored. The price of silver was still rising, and our foreign trade had not yet assumed its normal shape. In such circumstances, the Government would have been better advised to remove all restrictions on the export of precious metals in order to enable the world's silver and gold markets to attain their normal levels. Meanwhile, the exchange value of the rupee would follow the changing price of silver, while adjustment would inevitably, though gradually, take place between the Indian prices and the world prices. External stability can never take place unless internal prices are first stabilised in the different trading countries. When the Smith Committee submitted its Report, the important countries of the world were still under the spell of the War-time inflation though in different degrees. That was certainly not the moment for thinking of external stability. That the Indian prices were not adjusted to the world prices, the Committee itself seems to have thoroughly recognised: the Committee only hoped that adjustment would later on take place. But this is just like putting the cart before the horse. The proper line of action is not to impose an arbitrary standard into which economic

relationships will be subsequently fitted after great hardships, but to allow normal economic forces to evolve the standard itself. Thus the Smith Committee lays itself open to the charge of having violated sound economic principles in the interest of British commerce, British capital, and the European community in India.

Government action on the Smith Committee's Report.

The Government of India, however, was undeterred by all the vigorous criticisms levelled against the Smith Committee's recommendations and forthwith proceeded to implement them. The new ratio of 2*s*. gold was adopted with what consequences we shall examine later. We shall study at first the results of the Government's action on the other subsidiary recommendations.

In the first place, the Government tried to establish the new internal ratio of 10:1 between the sovereign and the rupee. To make the new ratio effective, it was essentially necessary to abolish the existing premium on gold over the price indicated by the Smith Committee. Accordingly in February 1920 the Government announced its intention to sell a minimum of 15 million tolas of gold during the next six months. Though a large quantity of gold was sold during that period, and even further sales were made in August and September, the premium though it was reduced, did not cease to exist. Moreover, the Government stopped further sales of gold, which had the effect of raising up again the price of gold. Meanwhile on June 21, 1920 an ordinance had been passed whereby sovereigns and half-sovereigns were divested of their

legal tender character, although a 21 days' moratorium was declared during which the Government undertook to accept them at the old ratio of Rs. 15 per sovereign. The Government altogether received sovereigns and half-sovereigns valued at £ 2½ millions during that period.

Following these preliminary steps, the Government restored the legal tender character of sovereigns and half-sovereigns at the new rate of Rs. 10 per sovereign, although the instruction given to Treasuries and Currency offices was to receive sovereigns and half-sovereigns at that rate and not to issue them. As, however, the premium on gold still continued to exist, the new legal tender did not function at all. Hence, the Government's attempt in this respect proved to be a total failure. And as sovereigns did not function as currency, the proposal for the establishment of a gold mint in Bombay was also dropped.

(2) *Secondly*, the Government proceeded to implement the recommendations of the Committee with regard to the removal of the war-time restrictions on the precious metals. One by one, the embargo on silver imports on private account as well as the import duty on silver, the prohibition of the use of gold and silver for other than currency purposes, the restrictions on the import of gold coin and gold bullion, the restriction on the use of silver for all payments due from the Government, and lastly the restrictions on the extra-legal facilities for the encashment of notes into rupees, were removed, and all within 1920. The embargo on silver export, however, remained. Mr. Dalal's criticism, therefore, remained un-answered.

The Reverse Council loot of 1920.

We now come to the Government's action on the principal recommendation of the Smith Committee, namely the fixation of the exchange rate at 2*s*. Gold. On the date of the publication of the Smith Committee, the New York cross-rate stood at £ 1 : $3·65. It was clear that in order to maintain 2*s*. gold, the sterling rate had to be considerably higher. This, however, did not deter the Government. The first reaction in India of the Government's resolve to implement the Smith Committee's main recommendation was the rush of Indian exporters to sell their export bills for rupees before the new exchange-rate came into force. There was a great demand for rupees which raised the rupee-sterling exchange to 2*s*. 8½*d*. within three days.

The demand for rupees, however, came to an end soon after the coming into force of the new exchange-rate. On the other hand, there was a great demand for sterling, Many firms which would have normally waited for months in order to make remittances to London at once rushed to take full advantage of the high exchange-value of the rupee. *Secondly*, many new companies which had been floated in India with the help of the excessive war-time profits placed large orders for foreign machinery and stores, making advance payment in view of the high rate of exchange which might not last long. *Thirdly*, there was a great speculative buying of sterling. *Lastly*, India experienced a tendency towards an adverse balance of trade which also created a demand for sterling. For all

these reasons, it became necessary for the Government to sell Reverse Councils. These Reverse Councils were paid out of the proceeds of the sale of the sterling securities and Treasury bills belonging to the London branch of the Indian Paper Currency Reserve. But these Bills and securities had to be sold at rates ranging from Rs. 7 to Rs. 10 to the pound, although they were originally purchased at the rate of Rs. 15 to the pound. Thus, the Government was saddled with a loss of Rs. 35 crores in order to maintain the new exchange-rate.

Meanwhile, the continued demand for sterling had been raising the exchange-value of the sterling. The rupee sterling market rate began to fall from the high level of 2*s.* $10\frac{27}{32}$*d.* on 10 February to a rate not only below 2*s.* gold but even below 2*s.* sterling. The Government finding it impossible to maintain the high rate of 2*s.* (gold) now began to offer sterling at a rate slightly above the market rate, maintaining that sterling had greatly appreciated in value. But even this pretence could not go on for all time as it was a costly one. And at last the attempt was given up.

Thus, the attempt to maintain the high rate of 2*s.* gold ended in a disastrous failure. The disaster was not confined only to the Government which, as we have seen, had to incur a loss of Rs. 35 crores. The selling of Reverse Councils on a very large scale created a great monetary stringency in India which, moreover, had not any compensatory effect on the rate of exchange owing to the abnormal activity of the import trade and the virtual collapse of our export for which the new exchange-rate

was not a little responsible. Above all, the commercial community in India suffered most owing to the excessive reliance placed on the Government's capacity to maintain the new rate. Orders had been recklessly placed with foreign firms in the confident expectation that the high rate would be maintained. But when orders were actually executed and goods were actually imported, the exchange had virtually collapsed. This meant widespread loss and virtual bankruptcy to many a well-established firm.

Concluding observations.

Ignorance however, abysmal, and imagination, however dull, can not excuse the Government for undertaking an impossible task and for persevering in it for a fairly long period of time, even though its disastrous consequences were felt from the very beginning. When the Government wanted to establish the new rate of 2*s.* gold the actual market value of gold was nearly Rs. 24 per *tola*. While according to the new exchange rate, it was to be about Rs. 16 per *tola*. Moreover, even in terms of internal purchasing powers, rupee would have been seriously overvalued compared to gold prices abroad, if the new rate were adopted. Having regard to these indisputable facts, it must have been abundantly clear to the Government that unless highly drastic deflationary steps were taken, it would be impossible to maintain the high rate.

Secondly, the Government made a grievous blunder both in its analysis of the causes of the high price of silver and in its anticipations as regards the future price of silver and gold. The Government should have realised

the essentially temporary nature of the high price of silver, which was brought about by various factors such as restrictions on the sale and purchase of silver, India's excessive demand for silver in a period of prosperous foreign trade, the depreciation of the rupee, and above all, the depreciation of the sterling in terms of gold. There was therefore, hardly any ground for believing that the high price of silver had come to stay. Similarly, the Government miscalculated the future trend of gold prices. During the War and in the early post-War period, inflation in different degrees was the rule almost everywhere. The Government should have known that, with the lapse of time, this artificial inflation would gradually disappear. In such a case, the over-valuation of rupee would become still more pronounced, as gold prices would begin to decline elsewhere.

Thirdly, the Government should have taken lessons from the rapid fluctuations that were taking place in the value of silver particularly, and from the general currency chaos that prevailed everywhere, in order to avoid precipitate action with regard to the Indian exchange-rate.

Lastly, when the Government actually found it impossible to maintain the high exchange-rate without inflicting serious losses on the Indian Exchequer, it should have abandoned the attempt at once, instead of doggedly pursuing it out of a blind faith in the wisdom of the Smith Committee.

The policy of masterly inactivity (1921-25).

The disastrous failure of the policy of maintaining

fixed exchange-rate at last convinced the Government of the wisdom of allowing the rupee-sterling exchange to follow its own level, until a more normal position was reached in the world's economic and political spheres.

In 1921 India was faced with an adverse balance of trade owing to low gold prices and still lower sterling prices of Indian exports brought about by deflationary measures both in the U.S.A. and in England. The rupee-sterling rate accordingly declined and even reached the low level of 1*s.* 3*d.* There was a great contraction of the currency in India, but even this failed to arrest the sagging exchange. Things were no better during 1922-23. But towards the close of 1923, there was a revival of our export balance, and the exchange rose up to 1*s.* 3⅝*d.* gold in September 1923. In October 1924 the rate of exchange rose up to 1s. 6d. sterling. The Government seems to have decided not to allow exchange to rise any further. Hence the Secretary of State began to sell Council bills for the requirements both of the Home Charges and of India's foreign trade. When sterling became gold in 1925, the rupee-sterling rate continued or was made to continue to remain at 1s. 6d. At last, the Government seemed to have found out a rate of exchange which would last. But before declaring the Government's resolve to maintain this new rate, a Royal Commission on Indian Currency and Exchange was appointed in the usual fashion for making recommendations.

Summary of the Hilton Young Commission's Report

The terms of reference of the Hilton Young Commis-

sion comprised three subjects; (a) the choice of a monetary standard, (b) The choice of a rate at which exchange was to be established, and (c) the problem of a Central Bank for India. In this chapter we are concerned only with the first two heads.

The choice of a Monetary Standard for India.

The Hilton Young Commission had mainly to consider the relative merits of a Gold Exchange Standard, Gold Standard with a gold currency, and the Gold Standard without a gold currency. As we shall see presently, the Commission rejected the first two alternatives and chose the third one. We summarise below the principal arguments advanced by the Royal Commission in support of their choice.

Defects of the Gold Exchange Standard.

We summarise below the main criticisms of the Gold Exchange standard advanced by the Hilton Young Commission :—

(1) The Gold Exchange standard which lasted from 1898 to 1917 was a highly complicated monetary standard, and as such it did not inspire public confidence. Under it, the currency in India consisted of two kinds of tokens, namely rupees and notes with un-necessary excrescence of a third full-valued coin, namely the gold sovereign, which did not circulate at all. Rupee-notes were convertible into silver rupees but these rupees again were no better than notes printed on silver. Hence, one form of token was convertible into another form of token.

(2) The Gold-Exchange standard was a fair-weather standard. It could last only so long as the price of silver remained at such a low level that the face value of the rupee was greater than its metallic value. If the price of silver soared up as it did in 1917, the system could not be maintained without entailing very heavy losses to the Government.

(3) The system involved a duplication of reserves, namely the Indian Paper Currency Reserve and the Gold Standard Reserve, whose normal functions were suspended for the sake of maintaining the stability of the Exchanges. The proper function of the Paper Currency Reserve was to ensure the convertibility of the rupee-notes. In practice, however, both kinds of reserves as well as treasury balances were freely utilized for maintaining the exchange, thereby creating great confusion in the Indian Currency and Exchange system.

(4) The Gold Exchange standard was not an *automatic* standard. The expansion and contraction of the currency depended more on the whims of the Government than on the purchase and sale of sterling. The sale of Council bills in London was sometimes met by the Government of India with the help of the Government's Treasury balances rather than with fresh coinage. Thus, there was no net increase of the volume of currency circulation. Again, the currency withdrawn by the sale of Reverse Councils was sometimes partly released by the Government for circulation even though sterling was not purchased.

(5) The system was not an *elastic* one. The expan-

sion of the currency could take place only when Council Bills were sold in London. But the demand for additional currency comes generally when internal crop-movement takes place. Thus, there was a serious time-lag between the actual demand for additional currency and the actual supply thereof. Further, the amount of additional currency that could be available depended upon the volume of our balance of exports and as such it was not determined by the needs of internal trade. Again, the Smith Committee's recommendation providing for some currency expansion against genuine inland trade bills could not be given effect to as there was a genuine lack of such trade bills. Similarly, the contraction of the currency depended upon the sale of reverse councils, which could by no means be counted upon whenever the country might have a surplus of monetary circulation. Moreover, as we have already seen, actual currency contraction did not invariably follow the sale of Reverses.

Further Criticisms of the Gold Exchange standard.

The Hilton Young Commission, while condemning the Gold Exchange standard along the above lines, did not, it appears, sufficiently bring out some of its more sinister, if not also ridiculous, aspects. For instance, the Commission did not comment at length on the composition and the location of the two kinds of Reserves noted above. Apart from utilising the Paper Currency Reserve for maintaining the exchange ratio which was none of its business, there was hardly any justification for keeping the great bulk of it in the

shape of gold or sterling securities in far-away London. A very queer way indeed for ensuring the convertibility of our notes! the official justification was that silver had to be purchased and as such a large part of Paper Currency Reserve was legitimately located in London. We do not understand, however, the reasons why silver could not as well be purchsed in India, why India, being a large buyer of silver, could not have a silver market when England, who had nothing to do with silver, could so easily have one, and why even if silver had to be purchased in London, the necessary purchasing power could not be sent from India at the time of the actual purchase, instead of being kept there indefinitely in advance apparently for the benefit of the London money market.

Similarly, Indian public opinion could not tolerate the manner in which the Gold Standard Reserve was handled. A Reserve, originally created to serve as a basis for the future establishment of a full-fledged gold standard in India, was utilized not only for maintaining an artificial exchange rate but for financing Railway construction as well. Even if maintenance of the exchange was its legitimate function, it was necessary, as the Chamberlain Commission observed, to keep the reserve predominantly in a liquid form, which might take the shape mostly of gold and partly of short-dated securities. In actual practice, however, the Gold Standard Reserve was largely invested in the form of long-term securities including British War Loans, which had to be sold occasionally at very low prices, as during the

great exchange loot of 1920, involving India in huge uncalled-for losses. Indian public opinion had always demanded the retention of the Gold Standard Reserve in India and in the shape of gold. The official argument was that gold, being necessary for meeting India's external obligation, was best kept in London. The practice of other countries remaining on the Gold Exchange Standard, was also cited as an example. Lastly, it was pointed out that London had a short-loan market in which India's gold could be safely invested for earning some interest. We may, however, easily reply that the example of other countries, did not apply to India at all. India had normally been a creditor country and as such there was no necessity for habitually keeping our gold reserves in London for meeting our external obligations. If in any abnormal year India did become a debtor, gold could have been easily sent out of India. As regards the contention that gold reserves in London could earn some interest, it may be pointed out that considerations of interest should not be regarded as the only or the all-important considerations in such matters. Moreover, there was no reason why attempts should not have made to develop a short-loan market in India. After all, there was no particular safety of foreign gold reserves in the London money market. Both during and after the Great War, London's importance as a gold centre has steadily diminished. If a foreign centre was deemed to be advisable for the location of our gold reserves, certainly London was not the ideal place.

Lastly, Indian opinion severely criticized the manner

in which Council Bills were sold by the Secretary of State for India. The only legitimate purpose of the Council Bill was to facilitate the transfer of funds from India for meeting the Government of India's sterling obligation. But in actual practice, Council Bills were freely sold whenever there was any occasion for payment to India by her foreign debtors. Thus the cash balances of the Secretary of State increased abnormally apparently for the benefit of the British merchants. The policy of selling Council Bills in excess of the Secretary of State's own requirements was justified on the ground that it led to the reduction or avoidance of debts. But actually, however, loans have been often floated in the London money market even though the Secretary of State's cash balances were fairly ample. Moreover, the surplus balances have generally been lent out at comparatively low rates of interest to approved borrowers in whom the advisers in financial matters of the Secretary of State for India were sometimes personally interested. Moreover, Council Bills were often sold at rates below the specie import point even when there was no particular demand for funds in London. Thus "the whole Council Bill system had all the appearance of an elaborate device for diverting the flow of gold from India and saving London the inconvenience and cost of finding it for India, while acting as a receptacle for as much of India's gold as possible—not to hold but to use." (Jather and Beri)

On the other hand, while Indian money was thus freely utilised for easing the London money market on highly favourable terms for the British business

community, the Reserve Treasury system which prevailed in India involved the locking up of our already scanty monetary resources in Government Treasuries at a time when there was a great demand for currency and the bank rates were ruling high.

Above all, the Council Bill system stands thoroughly condemned because of the secret and clandestine manner in which it was managed by the Secretary of State for India, living 6000 miles away from India, surrounded by, and therefore amenable to, interests not Indian in their ideas and aims. The monetary system of a country should be always fool-proof and knave-proof. Unfortunately in India, British economic interests have always stood in the way of a just and intelligible arrangement of our Currency system which might inspire popular confidence and at the same time safeguard India's economic interests. The so-called Gold Exchange standard is thus a classic example of the economic domination of India by the City of London.

The Government of India's proposal for a Gold Currency standard.

Sir Basil Blackett, the then Finance Member of the Governor-General's Executive Council formulated a proposal for the establishment of a gold standard in India. The Blackett scheme contemplated the introduction of a gold currency system. Rupees were to be made convertible into gold currency for the next ten years after which, however, rupees would cease to be legal tender except for small amounts not exceeding, say, Rs. 50. Of course, a large

amount of gold was necessary in order to give effect to the scheme. The Commision calculated that about Rs. 110 crores might be presented by the public for conversion into gold. Hence it was necessary to attract a large quantity of gold for currency purposes both from outside and from the Indian hoarders. Gold was also to be purchased by selling a part of India's redundant silver equal to thrice the world's total annual output of silver. Notes were to be made convertible into full-valued gold coins whereby,it was believed, the hoarding habit would be gradually overcome. The cost of the scheme was estimated to be Rs. 1'67 crores per annum during the first five years, and between Rs. 0'67 and Rs. 1'12 crores subsequently.

The Currency Commission's rejection of the scheme.

The Blackett scheme, however, unfortunately did not find favour in the eyes of the Hilton Young Commission who summarily rejected it on the following grounds :

(1) The scheme would give rise in India to an additional demand for nearly £103 millions of the world's gold at a time when the world's annual output of gold was notoriously falling off, and feverish attempts were being made everywhere to economise in the use of gold. This increased demand for gold would naturally have serious adverse repercussions upon the trend of gold prices and rates of interest all the world over, and India, being a part of the world, would naturally suffer with the rest.

(2) The demand for conversion of rupees into gold currency, which the scheme contemplated, would be spread over ten years, might in actual practice, be sudden and not

gradual. Moreover, it was quite possible that depreciation in the value of silver and silver hoards might result in an increased demand for gold for hoarding purposes. Lastly, the attachment of the Indian people to gold was well known and as such they might show a distinct preference for holding gold currency instead of notes. For all these reasons, there was a large degree of uncertainty in the estimated amount of gold necessary for giving effect to the scheme.

(3) The dethronement of silver which the scheme contemplated would have also serious repercussions upon the world price of silver. Already the position of silver was not very enviable owing to the widespread tendency to use notes, copper and nickel coins instead of silver. If, in addition, the monetary demand for silver was to cease in India, and India became a seller of silver instead of a buyer, there would be a great decline in the world value of silver. Moreover, the decline would continue to increase as the annual output of silver would not diminish, silver being largely a by-product. This fall in the value of silver would be a great blow to the Indian masses who had hoarded silver as a form of wealth.

(4) Further, the abandonment of silver by India, taken in conjunction with large sales of silver by the Government of India, would have a dislocating effect upon Chinese exchanges. The world's trade, including India's growing trade with China, therefore, might suffer. Moreover, there had been for some time a growing movement for the adoption of a gold standard in China. If India abandoned silver in favour of a gold currency,

China might easily emulate her example. In that case, however, there would be a still further rise in the price of gold and a still further decline in the price of silver, with all their disastrous consequences.

(5) Finally, the Commission pointed out that the scheme was both very costly and impracticable. It was costly because the Government of India would have to purchase a large quantity of gold for an indefinite period in order to promote the circulation of gold coins in India. It was impracticable, as large credits would be necessary for giving effect to the scheme and no such credit would be available from England and the U. S. A., both of whom viewed it with undisguised alarm, the former because of her interest in the monetary reconstruction of Europe, the latter because of her traditional silver interests.

Criticisms of the Currency Commission's remarks.

The Hilton Young Commission seems to have dismissed in a cavalier manner the popular demand for a gold currency standard which was for once backed not only by the Government of India but also by foreign monetary experts like Dr. Gregory and Dr. Cannan. If simplicity and popular confidence are regarded as the indispensable ear-marks of an ideal currency system, certainly a full-fledged gold standard based upon the free circulation of gold coins could, in the particular circumstances of India, best answer those tests. The reckless manner in which the Indian currency and Exchange system had been handled since 1893 had naturally aroused deep-rooted public suspicion about the *bonafides* of the Government's

intentions. Hence public opinion clamoured for the actual circulation of gold coins as an indisputable and conspicuously visible symbol of a well-conceived Gold Standard for India. The Commision, while recognising that India's currency system must be simple and readily welcome to the people, seems to have been determined not to follow its own precept. The objections raised by the Commission to the proposal of a Gold Currency system are mostly exaggerated and partly irrelevant. If the Blackett scheme was expensive, infinitely more expensive had been the Gold Exchange standard which had received the official imprimatur of the Chamberlain Commission and the Babington Smith Committee. Further, the argument of cost should not have been put forward as a fundamental objection to a scheme otherwise desirable. Lastly, if the Blackett scheme was deemed to be too costly, the Commission could have adopted Dr. Cannan's proposal for the establishment of a Gold Mint in India and the progressive realisation of a full-fledged gold standard within the brief space of a year. That Scheme would have cost much less. Again the Commission under-estimated the amount of gold that might be easily available by the dishoarding of Indian hoarded gold, through India's normal export surpluses, and through the gradual redemption of the sterling securities belonging to the Paper Currency Reserve and the Gold Standard Reserve.

(2) The Commission also seems to have over-exaggerated the extent to which notes would be presented for conversion into gold coins. Perhaps there would be a rush for conversion at the initial stage ; but later on, once

people got accustomed to the new standard, notes could circulate side by side with gold coins. Moreover, notes would always be necessary for remittances, for large payments, and for the purpose of banking reserves.

(3) Again the Commission seems to have emphasized overmuch the adverse repercussions of India's adoption of the gold currency standard upon the price of gold and silver. Dr. Gregory, the English monetary expert, did not anticipate any considerable unsettlement of the world's gold market following India's adoption of a gold currency. The high price of gold was largely due to the sterilisation of a huge quantity of gold by the U.S.A. and France in the Post-war world. India, a subject country, had no particular obligation to sacrifice her own self-interest for the sake of world prosperity which was threatened by the policies pursued by some of the Great Powers. Again, the Commission observed that a fall in the price of silver would

Dr. Cannan formulated a scheme whereby he claimed, the transition to a gold currency standard could be made in India without any large risk at any point and at the same time with considerable rapidity.' The outlines of the scheme may be given as follows : (1) Free coinage of gold, the gold coin to contain as much gold as the bullion presented, less a small charge for the cost of manufacture. (ii) New gold coins and old coins (if any) to be declared unlimited legal tender, with a fixed rupee value. (iii) Additional issue of rupees to be suspended, aud additional issue of notes redeemable in silver to be stopped. (iv) Notes to be declared as convertible into gold coins but by instalments ; notes of the largest denomination to be taken first and subsequently notes of other denominations step by step. (v) Lastly, silver rupees were to be made convertible into gold coins, those of the latest date to be taken in at first, and so on.

hit hard the Indian masses, the world's China trade, and the American silver interests. As far as the Indian silver hoards are concerned, we might reply as follows: First, the greatest depreciation in the value of our silver hoards had already taken place when the Government stopped free coinage of rupees in 1893. No such anxiety was then felt by the Government or its British advisers for the Indian masses. Secondly, the total quantity of silvor hoards, though large, was perhaps not as large as the Commision imagined. Even if the aggregate quantity was was large, the individual share was likely to be very small, as such the loss would not very keenly felt. Lastly, the loss due to the depreciation of the silver hoards was likely to be more than offset by gains due to the appreciation in the value of our gold hoards which, according to the Commission's own reasonings, was bound to be considerable.

The argument of the adverse reaction on the China trade is somewhat irrelevant. Our trade with China was at that time by no means very important and as such we did not stand to lose much ourselves if Chinese exchange became dislocated. Moreover, as the Commission itself observed, China might also be induced to adopt the gold standard, in which case we would not lose at all in our trade relations with China.

(4) Lastly, the argument as regards the U. S. A.'s hostility on account of her traditional silver interests is perfectly irrelevant. It might be in the interest of Great Britain not to do anything which might offend directly or indirectly, the Great American Republic. But for India

there was no particular reason why our own domestic policy should be dictated by American self-interest. If the U.S.A. could calmly pursue political and economic policies which had seriously affected the prosperity of the whole world, there was absolutely no reason in the world why India should deviate from her own proper course out of consideration for American susceptibilities. As regards loans for getting the necessary funds, they could easily be floated in India and if necessary, in Great Britain as well, the Commission's warnings notwithstanding.

Thus, the objections advanced by the Hilton Young Commission are not at all serious. They look more like flimsy excuses which can always be found for propping up a case which is already known to its advocate to be fundamentally untenable. The real objection of the Commission was that it was not in British interest to set up a gold currency standard in India. That objection could not naturally be mentioned.

A Gold Bullion standard for India.

The Hilton Young Commission, while rejecting the Finance Department's scheme for a gold currency standard, however, strongly recommended the Gold Bullion standard which was indeed the Post-war interpretation of the Gold standard throughout the world. The essence of the gold standard is the free convertibility of a country's legal tender into gold at a fixed rate and for *all* purposes: the actual circulation of gold coins, though an *usual* feature of the gold standard before the war is by no means *essential* thereto. The withdrawal of gold circu-

lation in the Post-war functioning of the gold standard was due to the following factors : (a) first, the diminished annual output of gold compared to the annual increase in production due to Rationalisation and systematic exploitation of hitherto undeveloped colonial regions ; (b) secondly, the huge maldistribution of the world's total stock of gold, France and U. S. A. possessing nearly ⅔rds of the world's total quantity ; and (c) a general recognition that gold in circulation is not very useful as a banking reserve. The Currency Commission, apparently obsessed by these new ideas, wanted India to establish her gold standard along up-to-date and scientific lines. For the realisation of the Gold Bullion Standard, the Commission made the following proposals :

(1) The ordinary medium of circulation in India should remain, as at present, the currency note and the silver rupee, and the stability of the currency in terms of of gold should be secured by making the currency directly convertible into gold for all purposes. Gold *must* not circulate at first and *need* not circulate ever.

(2) The Currency Authority will have the obligation to buy and sell gold at fixed rates determined with reference to a fixed gold parity of the rupee, but in quantities of not less than 400 fine ounces as regards sale. The limitation as regards quantity was designed to prevent the dissipation of the country's gold resources on flimsy grounds. The true purpose of gold was to facilitate payments to foreigners. On the other hand, the local currency unit was convertible into gold for *all* purposes, internal and external, and *vice versa*, instead of being convertible into sterling or

any other foreign currency. This would secure both stability of prices and stability of exchanges, the former because rupee prices could move only with the movement of gold prices, and the latter because the rupee was given a fixed gold value. *Lastly*, the currency system would become elastic, as the currency would become expanded when notes or rupees would be issued by the Currency Authority in exchange for gold, and contracted when gold bars would be offered by the same Authority against notes and rupees. Thus an effective gold standard would be established without the un-necessary luxury of actual gold circulation.

(3) Sovereign should be demonetized in order to prevent the existing hoards of gold coins from entering into circulation. Sovereign may become legal tender again when India will have sufficient gold reserves for the introduction of a gold currency, and if she decides in favour of a gold currency.

(4) As the buying and selling of gold at prices determined by the *par* value of the rupee, irrespective of the cost of importation of gold or of any deviation of the actual rate of exchange from the *par* rate, will make the Currency Authority the greatest gold market in India, thereby destroying the gold bullion market in India as well as throwing upon the Currency Authority the un-necessary task of selling gold for non-monetary purposes. the Hilton Young Commission recommended that the selling rate of gold in India should be equal to the par rate *plus* the cost of importation of gold from London. In other

words, gold would be sold at a cheaper price in London than in India.

(5) *Lastly*, in order to create popular confidence in the new standard, the Commission recommended the issue of Savings Certificates in denominations of one *tola* and integral multiples of *tolas* payable in three or five years' time either in legal tender money or in gold, according to the option of the holder. As these certificates would yield an attractive rate of interest, the Commission believed that this system would go a long way towards curing the hoarding habits of the people.

A critical evaluation of the gold Bullion standard.

The Gold Bullion standard recommended by the Currency Commission was, as we have already seen, claimed to be an ideal standard. It approximated to the latest idea about the gold standard, whereas the gold currency standard proposed by the Finance department would render India liable to the charge of being a backward and old-fashioned country. It gave India all the advantages of a true gold standard, namely safety, elasticity, automacy. and easy popular acceptability, and none of its disadvantages. No great loss would be involved, as the amount of gold required would not be very large. There should be no uneasy period of transition, as the proposed monetary standard could be given effect to at once. There should be no upsetting of the world's gold market, and as such the economic recovery of the world would not be impeded.

There should be no landslide in the world's silver market and the China trade would not be hampered.

the Indian masses would not suddenly be faced with a capital depreciation, and above all American friendship would not be imperilled. The hoarding habit would be checked, the country's gold resources would be conserved, the gold bullion market would be kept intact. The Commission would indeed wonder if any one were to be so impudent as to challenge its efficacy.

Indian public opinion, however, did not accept the new proposals with any fraction of the enthusiasm which the Commission felt for them. The people of India wanted the actual circulation of gold coins as a visible proof of an active gold standard. Instead, they were now asked to go through a severe mental gymnastic in order to understand the nature of the rupee. The provision that gold would not be sold except for quantities of 400 oz. or above virtually meant that none but bankers and bullion dealers would see the face of gold. Again, the provision that the selling price of gold would be higher than its buying price, cheaper in London than in India, clearly meant that the old game of utilising India's gold and gold dues for the benefit of the London money market would be continued. The Savings Certificates system was a poor response to the popular demand for gold coins. Again, popular suspicion was further strengthened by the recommendation for the demonetization of the existing sovereigns, while no such action was thought necessary for establishing the Gold Bullion Standard in England. Thus, the Gold Bullion Standard failed to remove the deep-rooted public suspicion regarding the Government's currency

policy and came to be regarded as a sort of comouflaged Gold Exchange Standard of the pre-war brand.

The problem of the Rati o.

Having thus disposed of the problem of monetary standard, the Currency Commission next turned to the problem of the stabilisation of the exchange. The Commission recommended the adoption of the 1*s*. 6*d*. ratio., as they believed that at that rate the rupee prices had already been adjusted to world prices. The conclusion was drawn from the following facts :

(i) From December 1922 to June 1924, the rupee price-level ranged round a mean of about 176, and the exchange stood at about 1s. 3d. gold.

(ii) From July 1924 to June 1925, the rupee price-level declined to 157, while the exchange rose to 1s. 6d. gold.

(iii) Since June 1925, while the exchange remained roughly at 1s. 6d. gold, the rupee price-level also remained stationary at 158 and showed some tendency to decline with declining prices.

As the world price-level had been practically stationary since December 1922, while Indian prices had been continually declining accompanied by rising exchange until the level of 158 was reached, after which both the price-level and the exchange rate continued to be stable, the only legitimate conclusion was that an adjustment was reached at the 1*s*. 6*d*. ratio.

The Commission also sought to justify the 1*s*. 6*d* ratio by the following subsidiary arguments :—

(a) As exchange and prices had been steady for a considerable period, there is a *prima facie* justification for the assumption that wages had already been adjusted to the price-level. The Commission could at least cite the case of the Indian Jute industry as a proof. Similar optimism could not perhaps be felt as regards the Indian Cotton industry or the Iron and Steel industry. But then the fault lay with the managers and not with the ratio. In any case, it was unjust to effect a concealed reduction of wages. The Commission also maintained that the comparatively high rate of 1*s.* 6*d.* would enable the Government to resist the demand for higher salaries on the part of Government servants.

(b) The Commission also examined the effect of this new exchange rate on various types of debtors and creditors. First, as regards land revenue, the Commission admitted that in many cases land revenue settlements had already taken place when exchange stood at 1*s.* 4*d.*, *i.e.* when the value of the rupee was comparatively lower. The raising of the value of the rupee to 1*s.* 6*d.*, might, therefore, appear to impose an additional burden on the cultivating tenants. The actual burden, however, the Commissioners argued, would not be much heavier as a great rise in prices had already taken place, thereby lightening the burden on the rent-paying classes. Lastly, with regard to ordinary debts, the Commission argued that most of these debts had been contracted during the last 7 or 8 years during which the exchange generally stood at levels higher than 1*s.* 4*d.* and as such the new rate would not affect the debtors at all considerably.

(c) *Lastly,* the Commission also proved their case negatively by referring to the popular arguments in favour of the 1*s.* 4*d.* ratio. The principal popular objection was that the exchange stood at 1*s.* 6*d.* for too short a period to justify the hope that complete adjustment had already taken place between the Indian and the world prices, and that even this relative exchange stability was due to the Government's manipulation. The Commission retorted that even if manipulation was responsible for the establishment of the new rate, that was no reason why the new rate should not be adopted. Secondly, even if complete adjustment could not be claimed for the 1*s.* 6*d.* ratio, the only considerable adjustment that had taken place was at 1*s.* 6*d.* and not at 1*s.* 4*d.* The Commission concluded their observations with the remark that a restoration of the pre-war 1*s.* 4*d.* ratio would impose a serious burden on consumers, the poorer sections of the literate classes who had fixed money-incomes, the wage-earners, as well as the Central and the Provincial Governments.

Sir P. Thakurdas's Minute of Dissent.

Sir Purshotamdas Thakurdas in a vigorous Minute of Dissent severely criticized the Majority's recommendation of the 1*s.* 6*d.* ratio. He first accused the Government of effecting great currency contraction in order to raise up the exchange rate. He also denied that adjustment had taken place at the proposed high rate. Hence the new ratio involved a serious burden on Indian exporters and manufacturers alike, while it conferred a bounty of 12½% on British exporters to India. He further observed that

the new ratio would involve an additional burden on our debtor class, mostly agriculturists, carrying the burden of old debts contracted during the period of the 1*s*. 4*d*. ratio. As regards Governmental finance, the savings to be effected in the Government's sterling obligations were likely to be largely offset by losses on account of the lower income-tax and customs revenue which would follow from the reduced income of the Indian producers. The unmerited benefit to the lower middle class people who constituted not more than 21% of the Indian population would hardly justify the imposition of an altogether unmerited hardship on the remaining 79%. As regards labour, the existing level of wages was sufficiently high on the Commission's own admission to cover any possible rise in prices which might be brought about by the 1*s*. 4*d*. ratio. Above all, labourers would secure better employment under 1*s*. 4*d*. *Lastly*, Sir Purshotamadas contended that if all other countries including England thought it to be advisable to restore the old par of exchange inspite of great war-time disturbances, there was absolutely no reason why in the case of India a higher par of exchange should be chosen.

Critical evaluation of the Ratio controversy.

The Ratio controversy engendered a great deal of heat and bitterness among the controversialists of both the sides, and it is only natural that in the heat of the debate sound economic principles were often forgotten or distorted. The most important question that had to be settled was whether rupee prices were adjusted to world prices

at 1*s*. 6*d*. The Majority of the Hilton Young Commission no doubt believed that such an adjustment had taken place, but that belief was not based on indubitable facts. Index Numbers, as the Currency Commission admitted, are not an unreliable guide always and in the particular case of India, they were even more unreliable because of the imperfect method of their compilation. Moreover, the Commission had to admit that wages in the Cotton and in the Iron and Steel industry had not been adjusted. Similarly, the Commission could not prove the adjustment of agricultural wages. As regards contracts, the Commission had to take shelter under the questionable assumption that the bulk of the contracts came into existence during the period of exchange uncertainty following 1917 and as such would not be affected by the new ratio. But this assumption was certainly a bold one and manifestly incorrect with regard to many long-term obligations of the ryots and other classes. Again as regards land settlements, the Commission held that the burden of land revenue had been lightened by the rise in prices during the war and the Post-war period and as such the new rate would not affect the agriculturists. We might, however, point out that it did not lie in the month of the Commission to seek to condone the concealed increase in the burden of the land-revenue, while condemning the concealed reduction in wages which, in their opinion, the adoption of the 1*s* 4*d*. ratio would have involved. Similarly, the Commission's argument that the 1*s*. 6*d*. ratio would help to stabilise the Government's budgets, as that would enable the Government to resist the popular clamour for increased salary,

is somewhat irrelevant and unconvincing. The argument of supposed benefit to the low paid literate classes is similarly beside the point.

If the Currency Commission's advocacy of the 1*s.* 6*d.* ratio was not very sound, the popular case for 1*s.* 4*d.* was similarly presented in a somewhat muddled fashion. Too much seems to have been made of the fact of the prevalence of 1*s.* 4*d.* rate over a long period of time before 1917. The protagonists conveniently forgot the various far-reaching price changes brought about by the war-time and Post-war disturbances. Again, they accused the Government of manipulating the exchange by means of currency contraction. If, however, their accusation is correct, certainly the case for 1*s.* 6*d.* ratio becomes all the more strong. Indeed, if manipulation is a terrible crime, the Government was guilty of the same in 1893 for bringing into existence the 1*s.* 4*d.*, which was now acclaimed to be the natural rate of exchange. There was no particular sanctity attaching either to 1*s.* 4*d.* or 1*s.* 6*d.*

Our conclusion is that the ratio question should not have been settled in such great haste. The Government should have followed the policy of "masterly inactivity" for some time longer, in order to allow a more complete adjustment to take place between the Indian and the world prices. It also appears that the Government was somewhat unduly anxious to raise the rate of exchange in the interest of the central budget and European commerce. This is certainly highly objectionable. If manipulation is at all justified in such matters, that manipulation should have been employed for the purpose

of propping up the pre-war ratio of 1*s.* 4*d.* A country's currency standard should generally be regarded as the last thing to be altered by a legislative act, for the simple reason that the currency unit is the basis upon which all relations between debtors and creditors are determined. An altered ratio, whether in an upward or in a downward direction, is bound to affect adversely some interests or others, while conferring a wholly unmerited benefit upon some ~~some~~ other class or classes. The Hilton Young Commission, therefore, must be charged with the guilt of having made a wanton and altogether arbitrary interference with our monetary standard and that too predominently in the interests of the foreigners.

The currency Act of 1927.

The recomendations of the Hilton Young Commission as regards Indian monetary standard and the exchange ratio were fully accepted by the Government and were embodied in the Currency Act of 1927.

(1) By that Act the ratio of 1*s.* 6*d.* was established, subject to certain minor deviations. The Government undertook to buy gold in unlimited quantities at the Bombay Mint at the rate of Rs. 21-3-10 per tola of fine gold, provided a minimum of 40 tolas (15 oz) was offered. Similarly, the Government undertook to sell gold at the Bombay Mint or at the option of the Government, sterling at London at the rate of Rs. 21-3-10. per tola of fine gold provided a minimum of at least 1,065 tolas (400 oz) was demanded. The Government selling rate for sterling was fixed at 1*s.* $5\frac{49}{64}d$, the difference being due to the cost of transportation

from Bombay to London. Sovereigns and half-sovereigns were demonetized, but the Government undertook to receive these coins at all currency offices and treasuries at the rate of Rs. 21-3-10 per *tola* of fine gold or Rs. 13-5-4 per full weight sovereign.

The Currency Act of 1927 established fully the Sterling Exchange Standard, though it authorised the Government to establish the Gold Bullion Standard as well. This view appears to be the most correct description of the new situation created by the Act, as the Government could sell gold or sterling according to its own option. There was no compulsory obligation on the Government to sell gold in unlimited quantities and as such it can not be pronounced to be a Gold Bullion Standard proper. Again, the fixation of a much higher minimum for selling gold than for buying gold, shows that the Government was more anxious to withdraw gold from the public than to satisfy the public demand for gold. The demonetization of sovereigns and half sovereigns also points to the same conclusion. On the other hand, for the first time the Government undertook a statutory obligation, with regard to the sale of sterling. This hotch-potch Gold Bullion *cum* sterling exchange standard continued to function till September 21,1931. On September 20, Great Britain was forced off gold. On the 21st September, the Governor General issued an *ordinance* suspending the operation of the obligation to sell gold or sterling. On the very same day, the Secretary of State announced the retention of the 1*s.* 6*d.* sterling ratio. On the 24th instant another *ordinance* was promulgated whereby a *controlled* sterling

exchange standard was established, as it was declared that sterling hence forward would be sold not to all and sundry but to some recognised banks and for specific proposes. Thus the much-vaunted Gold Bullion Standard, representing the latest and the most refined conception of the Gold standard proper, which the Hilton Young Commission so solemnly recommended for India and which the Government of India so solemnly claimed to have established, vanished away like a ghost once it became known that Great Britain had been forced off gold. The factors that drove England from its moorings on gold did not operate in India at all. If the Government ever sincerely believed that India was enjoying the Gold Bullion Standard, there was no justification for the Government's hectic activities culminating in the withdrawal of the Government's obligation to sell gold at its option. The truth is that in the Government's mind India was never on gold standard proper. It was a sterling exchange standard which had all along been functioning, though after the enforcement of the Currency Act of 1927 it was camouflaged as a Gold Bullion Standard. The September crisis in England tore off the mask, and a great sincerity was restored as regards the Government's actual policy regarding our currency and exchange.

Indian Paper currency system in the Post-war Period.

Before passing on to a study of the developments following the crisis of September 1931, we shall for some time look backward and trace the history of our paper currency

system since the close of the Great war. We take up the thread from 1920 where we broke off in our previous study of the evolution of our paper currency system.

The Indian Paper Currency Amendment Act 1920.

The above Act can be divided into two parts : *temporary* provisions and *permanent* provisions.

Permanent provisions.

(a) The metallic reserve should be at least 50% of the total reserve. It should be noted that the Babington Smith Committee recommended only 40% of the total reserve to be in the shape of coin or bullion. The higher percentage was justified on the ground of India's exceptional cash requirements particularly in the busy agricultural season.

(b) Except Rs. 20 crores worth of securities to be held in India, all other securities were to be held in England and were to be short-dated in character, their period of maturity not exceeding 12 months.

(c) Rs. 5 crores worth of notes could be issued against discounted inland bills of exchange maturing within 90 days.

(d) The Secretary of State for India was not to hold more than £ 5 millions of gold in London.

Transitory provisions.

It was not possible to give full effect to the recommendations of the Smith Committee at once, particularly owing to the revaluation of gold and gold securities in the

Paper Currency Reserve necessitated by the adoption of new ratio of 2*s.* gold. The mettalic reserve, therefore, could not be 50 per cent for some time. It was accordingly laid down that the *invested* portion of the reserve should stand at Rs. 85 crores. But even this amount of securities was not available as a large quantity of sterling securities had been sold to meet the obligations arising out of the sale of Reverse councils. Hence it was decided that the Government of India should *create* some securities for that purpose which would be reduced and ultimately wiped out and replaced by sterling securities with the help of the profits of fresh coinage ; the interest on the securities in the Paper Currency Reserve, the interest on the securities in the Gold Standard Reserve when the latter fund exceeded £40 millions, and the interest on commercial bills of exchange deposited with the controller of currency as security for the temporary issue. In actual practice, however, the Finance Act of subsequent years diverted these sources of income to revenue purposes owing to the Government's general budgetary difficulties, although in 1921-22 the excess in the Gold Standard Reserve was utilised for the extinction of the *ad hoc* securities.

The Hilton Young Commission's recommendations.

The Hilton Young Commission recommended the following far-reaching changes in the Indian Paper Currency Reserve, particularly because of its fundamental recommendation of the Gold Bullion Standard for India.

(a) There should be no obligation on the part of the Government to convert notes into silver rupees which were little better than notes printed on silver. This would remove the danger from any subsequent rise in the price of silver. It would also save the Government from the expense of maintaining huge silver reserves in addition to gold reserves required by the adoption of the Gold Bullion standard. The Commission, however, laid down that the above rule as regards the convertibility of notes into gold bar rather than silver rupees should apply only to the new notes that would be issued and not to the old notes. The Commission also stressed the desirability of converting all notes into rupees if so required by the public At the same time, the Commission recommended the printing of one-rupee notes, which would be recognised as full legal tender, and not legally convertible into rupee coins. It would be a statutory obligation on the Currency Authority to convert all notes except one-rupee notes into notes of smaller denominations or rupees at the option of the said Authority.

(b) *Secondly*, the Currency Commission recommended unification of the Paper Currency and Gold Standard reserves. These two Reserves had practically been utilised like a common fund and as such their separate designations were meaningless. Moreover, the Commission recommended the Proportional Reserve system in place of the existing fixed fiduciary reserve system. The minimum reserve in gold and gold securities was laid down as 40 per cent, although the Currency Authority should try to maintain a reserve ratio of 50 to 60 per cent. The gold

holding should come to 20 per cent as soon as possible, and to 25 per cent within ten years. The Government was asked not to lose any opportunity for fortifying the gold reserves. At the same time, the silver reserves should be reduced over a period of ten years from Rs. 85 crores to Rs. 25 crores. The remainder of the Reserve was to be kept in the shape of self-liquidating trade bills and Government of India securities. The amount of the securities was not to exceed the quantity of notes that was not likely to be withdrawn from circulation *plus* such an amount of securities the sale of which would not disturb the Government's credit.

The currency Act of 1927 and after.

The Currency Act of 1927 made Indian notes convertible into gold bar or sterling at the option of the Government, provided a fixed minimum quantity of notes was offered. The crisis of September 1931, however, removed the gold parity of the rupee and as such currency notes ceased to be convertible into gold. Since then notes are legally convertible into sterling and that too subject to certain restrictions. The establishment of the Reserve Bank of India in April 1935 has not made much alterations in this respect although the Reserve Bank is required to convert all notes into rupees pending the adoption of a more permanent monetary standard. The Reserve Bank, however, has been able to unify the Paper Currency and Gold Standard reserves. The Hilton Young Commission's recommendation for the issue of one-rupee notes with full legal tender power, however, has not yet been

given effect to, largely owing to the lack of popular confidence. (For further details regarding the present position *vide* the chapter on Indian Banking system).

Purchase of sterling by Public tender.

In the pre-war period the main responsibility for transferring funds from India to London lay with the Secretary of State for India. As we have already seen, the India Secretary used to sell Council Bills or Telegraphic Transfers in London for sterling offered in London, payable in rupees in India. Thus by one stroke, so to say, the British debtors' obligations to Indian creditors and the Government of India's sterling obligations were cleared off. In 1923-4, however, some alterations were introduced in the method of remittances. Weekly sales of Council bills, of course, continued, but the sale of Intermediaries at higher rates by the India Secretary was stopped. Instead, the Government of India began to purchase sterling from the Exchange Banks and other private financial houses through the agency of the Imperial Bank of India. This method was even more extensively applied in 1924-25 when the sale of Council Bills was abandoned as a principal method of remittances from India, Council Bills being sold only when there was a steady and continuous demand for them. In 1925-26 the sale of Council Bills did not take place at all. The Hilton Young Commission recommended the purchase of sterling by competitive public tender and the publication of the weekly returns of such purchases. That recommendation has been given effect to since April 1927. Tenders are invited on one day in the week,

usually on Wednesday, simultaneously in Calcutta, Bombay, Madras, and Karachi and the amount allotted to each rate is published on the following day. Intermediaries are also on offer at those centres on the other days of the week at a rate 1/32d. above the highest rate at which tenders were accepted on the previous day.

Up to March 31, 1935, the Imperial Bank of India was the agency through which the Government of India purchased sterling. Since April 1, 1935, however, the Reserve Bank of India has assumed sole responsibility in this matter. This new method has generally been regarded as a distinct improvement on the old Council Bills system on the ground that the Government of India can secure better terms for the purchase of sterling, as extensive purchases may be restricted to those periods when the rate of exchange is favourable to India. At the same time, exchange may be prevented from rising beyond the fixed par, whenever there is an intense demand for rupees. The Exchange Banks are also benefited as they can supply the necessary sterling for rupees in India out of their balances in the Bank of England. They replenish their sterling resources when the Indian Export Bills (payable in sterling) they have discounted mature. Thus the export trade of India is financed and the Government of India's sterling obligations are liquidated on favourable terms.

On the other hand, however, it may be mentioned that this new method is as much liable to abuse as the old Council Bills system. Sterling might be purchased at rates less favourable than what we could have obtained

if there was no anxiety to prevent the flow of gold into India, or if there was no anxiety to help British merchants and the European Exchange Banks. A truly nationalistic Reserve Bank may, of course, remove this possibility of manipulation. But India is not on gold since the establishment of the Reserve Bank and as such we can not make any comment on this matter.

Another criticism that has been levelled against the purchase of sterling in India may be summarised as follows: Since the demand for rupees comes from India's foreign debtors, London, which is one of the world's greatest monetary centres, is the most convenient place where the foreign demand for rupees exhibits itself in the most concentrated form. Accordingly, the purchase of sterling in India and at four distinct centres may not only inconvenience foreign merchants, but also may deprive India of the most favourable terms of exchange. The argument of inconvenience, however, does not appear to be very valid as foreign merchants discharge their obligations to India with the help of Exchange Banks which have proper establishments in India. Again, the importance of London as a world's monetary centre should not have much relevance to the present problem of remittances. As India is normally a creditor country, it is only proper that our remittances abroad should be regulated in India and in the full light of publicity and by an Indian banking Authority. It is a great gain to us that the India Secretary, surrounded by British business and financial interest, is no longer in charge of the rate of exchange. We think, however, that if tenders were invited in one

single centre, preferably Bombay, better terms might have been secured. Under the present arrangement, the demand for rupees shows itself in a dissipated form and and as such we may not get the best terms always.

The linking of the Rupee to Sterling.

We have already noted elsewhere how during the crisis of September 1931 which forced England off gold, the Governor-General at first issued an ordinance absolving the Government from the obligation to give either gold or sterling against rupees, how the India Secretary announced his decision to maintain the existing rupee-sterling ratio, and how the Governor-General by a separate ordinance committed India to a *controlled* rupee-sterling exchange. Since then, although sterling has depreciated much in terms of gold, the rupee-sterling exchange ratio has been maintained at 1*s*. 6*d*. We summarise below the principal advantages claimed for this arrangement as well as the principal criticisms levelled against it.

Advantages claimed.

(1) As India has to discharge huge Home Charges every year and further as India has to raise sterling loans from time to time to repay old loans, it is only proper that the rupee should be linked to sterling. The abandonment of the link can only mean the exposing of the Government of India's budget to the gamble in exchange. It will also be impossible for India to raise loans in the London money market.

(ii) India's trade with the United Kingdom and the

remainder of the *sterling bloc* represents a considerable part of her total international trade. The linking of the rupee to sterling will safeguard at least this part of India's foreign trade.

(iii) As sterling has depreciated in terms of gold, the rupee has automatically depreciated to an equal extent thereby conferring a bounty on Indian exports to the countries on the gold standard.

(iv) Indian public opinion had demanded the restoration of the 1*s*. 4*d*. gold ratio. That has been more than secured by the linking of the rupee to sterling at 1*s*. 6*d*.

Criticisms.

(i) Great Britain was forced off gold for reasons peculiar to her own economic conditions. There was absolutely no reason why India also should abandon the so-called Gold Bullion standard, although there was no particular strain on her exchange at the time.

(ii) Even if the maintenance of the Gold Standard was no longer possible or desirable for India, there was no reason why the rupee should have been linked to sterling. The depreciation of the sterling from time to time was determined by Britain's economic conditions. There was hardly any justification for thinking that what was good for Britain was also automatically good for India as well. The sterling exchange, if it conferred a bounty on Indian exports to the remaining gold standard countries with which India had no considerable trade also constituted a large degree of Imperial Preference to Great Britain in the Indian market compared to the gold standard countries.

Thus India's import trade from the gold standard countries suffered for the benefit of British traders.

(ii) If the rupee was under-valued in terms of gold, it was over-valued in terms of sterling, while the yen and some other currencies were under-valued in terms of sterling owing to their greater depreciation. Thus India's export trade with Japan and some other countries continued to suffer.

(iv) Above all, India was deprived of the freedom to regulate her currency and exchange according to her own judgment and in the best interests of her own economic system. It was preposterous that the City of London should continue to dictate our currency standard and exchange ratio in order to suit British interests. The India Secretary's action clearly demonstrated, if any such demonstration was at all necessary, the hollowness of the Gold Bullion Standard so ostentatiously recommended by the Hilton Young Commission. The partnership between the rupee and the sterling since 1898 has always been a forced one and has on many occasions proved to be a disastrous one too for India. It is a pity that there is no divorce.

(v) Lastly, the linking of the rupee to sterling has been the most important factor responsible for a huge export of gold out of India in recent times.

The export of gold from India.

The linking of the rupee to sterling since 1931 has been followed by an unexpected and even unprecedented phenomenon of gold exports from India. The total value of

exported gold stood at Rs. 274 crores in June 1936. Since the earliest days, India has been regarded as a sink for gold. It was only after September 1931 that the tide was reversed and India began to export gold on a large scale to the utmost relief of the Government of India and general rejoicings of the British Government. Indian nationalist opinion naturally stood aghast at this spectacle of gold outflow on an unprecedented scale at a time when all other countries of the world were trying their utmost to conserve and if possible, to increase their gold reserves. As a large quantity of this exported gold represented "distress" gold, *i.e.*, gold dishoardings by private persons who wanted to replenish their private exchequer exhausted by prolonged trade depression and resultant unemployment, public opinion in India took an even more gloomy view of the new development. As London was the usual destination of our exported gold, many patriotic Indians thought that the rupee was linked to sterling with the deliberate object of draining away India's private gold reserve for the benefit of the London money market. Accordingly a huge clamour was raised both by public men and commercial bodies urging the prohibition of gold export and the State purchase of the private gold offered for sale on account of the higher rupee prices of gold. In making the last request, people could invoke the authority of the Hilton Young Commission which had advised the Government to lose no opportunity to increase its stock of gold for the ultimate establishment of a full-fledged gold standard.

The official view

The official attitude however, was one of the supreme

complacency. It was pointed out that gold was exported just because the rupee price of gold had risen up following the depreciation of the sterling and therefore of the rupee compared to gold. It was perfectly natural that gold would be sold by all persons who had private gold hoardings in vew of the phenomenal rise in its price. Even if it was admitted that the great bulk of the gold represented "distress" gold, certainly nobody seriously thought that the distress of the people could best be alleviated by declaring an embargo on gold export whereby the value of gold would be forcibly reduced. If London was the general destination of our exported gold, that was because of London's pre-eminence as a world market for gold. Moreover, the gold that was exported to London at the first instance did not necessarily stay at London for a long period of time, owing to the triangular nature of international trade. It was preposterous that anybody thought of stopping the free outflow of gold particularly when gold was going out as a commodity on the import of which alone there was no protective duty or any other restriction in any country. It was regarded as a great blessing to India that an inert metal was at last converted into useful currency which would go a long was towards the mitigation of monetary stringency in India. Moreover, the outflow of gold took place at a time when India was faced with an unfavourable balance of accounts and as such it was largely responsible for converting India into a creditor country from a debtor country, thereby making the rate of exchange favourable to us. Another welcome consequence of our gold export was to increase the world's

stock of gold just at the moment when the world was experiencing a genuine shortage of the yellow metal. It seemed as if a new gold mine had been discovered to redress the balance of the old gold mines which were exhibiting increasing niggardliness in the face of increased demand for the precious metal. Further as regards the proposal for Governmental purchase of the private gold offered for sale, it was pointed out that the time was anything 'but opportune. A high price of gold in terms of rupees was not the ideal time for the purchase of gold by the Government even for increasing our Currency reserve.

Lastly, it was observed that inspite of huge gold exports, there still remained a large quantity of gold in private hands and as such the gold exports did not imply any considerable exhaustion of India's total gold resources.

Conclusion.

Although we do not accept in its entirety the popular view that India's gold export was deliberately provoked by the Government by linking the rupee to sterling while sterling itself left its moorings on gold, we do not believe that the Government was fully justified in assuming its role of a smiling spectator while every week recorded the shipments of huge quantities of gold. The export of gold was not, as Professor Adarkar has explained it to be, a normal and legitimate economic phenomenon occasioned by the fact that we have been off gold and that there have not been any restrictions on the import of gold in any country. England was also off

gold, but we have not heard of any such huge export of gold out of England. On the contrary, the Bank of England appears to have replenished its reserves of gold at India's expense. Public opinion in India has always clamoured for a gold standard with a gold currency and as the main obstacle to the fulfilment of that desire has been ropresested to be the difficulty of procuring sufficient quantities of gold, the Government of India should have purchased the dishoarded gold instead of allowing it to flow out to London. No greater inflation would have taken place if the Government directly purchased gold instead of allowing foreigners to purchase it with sterling against which the Government had to release equivalent rupees and rupee notes owing to the obligation to maintain the exchange ratio. Again if gold was exported as a simple commodity, the U.S.A. and France, the only important countries still resting on gold, rather than London should have been the destination of India's gold. Professor Adarkar explains this fact by observing that the rupee was overvalued in terms of gold relatively to sterling. If that was so, there was something wrong with the exchange ratio which in that case ought to have been abandoned. Again while admitting that the rupee was overvalued relatively to sterling, Professor Adarkar has failed to take note of the logical conclusion that India's unfavourable balance of accounts in those years was largely due to that overvaluation, and that the export of gold on an unprecedented scale was the most fortunate event which enabled the Government to maintain the artificial exchange ratio. Thus the gold export was the symtom of a pathological development

in the country's balance of international obligations and as such there was nothing to rejoice over. A truly nationalistic Government would never have sermonised over the benefits to India and the whole world that would follow from the free outflow of gold. On the contrary, it would have gone to the very root of the matter to find out the cause of India's unfavourable balance of accounts for applying the rightful remedy. It is of course easy to understand that when there is a great rise in the value of gold in terms of a depreciated currency, there shall be a rush for the sale of privately hoarded gold, whether out of distress or not. Less, easy, however, is it to understand why that gold should be allowed to go out of the country particularly if the home country has any desire to re-establish the gold standard in the future, or why should that gold migrate to another country based upon paper with whom the home country is linked by a fixed ratio.

The recent development of the ratio controversy.

The New York speculative boom of 1929 was a very important landmark in Post-war economic development. The Federal Reserve Bank of New york, in order to arrest the high speculative fever, raised the Bank Rate which had a drastic deflationary effect both in the U. S.A. and abroad. There was a collapse in the American stock Exchange and a heavy fall in prices. On the other hand, the high Bank Rate in the U. S. A. resulted not only in a withdrawal of American funds invested in Europe but also in a virtual flight of capital from several European countries. Accordingly, European

Central Banks raised up their own Bank rates which had the effect of reducing their own price-levels to an unprecedented extent. Thus the world economic depression began. All important countries except the U. S. A. and France, were virtually forced to abandon the Gold Standard. It was expected that in a paper regime prices would gradually look up. But that expectation was doomed to disappointment. The downward movement of prices both of manufactured and of agricultural goods continued, although prices were higher in the "paper bloc" than in the "gold bloc'. To meet the new competition from the countries on depreciating paper, the U. S. A, inspite of its huge stock of gold, abandoned the Gold standard for some time and then restored it on a devalued basis, the doller being devalued by nearly 40%. France alone bravely pulled on chiefly because the Post-war *franc* was itself a devalued *franc*. Ultimately, however, France had to devalue her *franc* much further, before equilibrium could be restored in her balance of foreign indebtedness. Afterwards a Tripartite Monetary Agreement was signed between England, France and the U. S. A. whereby relative exchange stability has been achieved between sterling, dollar and franc.

Such then is the general back-ground against which we must place the problem of devaluation of the Indian rupee.

The case for devaluation.

Since 1931 the Government of India had to effect much contraction of currency owing to the flight of capital

from India caused by the world economic crisis in general, and the political crisis in India in particular. This contraction was effected by the raising of the Imperial Bank Rate, by the sale of Treasury Bills as well as by a partial withdrawal of rupee circulation in India. Inspite of these drastic steps, the Home Charges had to be met by transference of sterling from the Indian Paper Currencey Reserve in London to the Treasury balance of the Secretary of State for India as well as by fresh sterling loans. All these show that the 1s. 6d. ratio was no longer the normal ratio, even if it ever had been so, in view of the altered circumstances all the world over.

(2) The huge gold exports from India since England abandoned the Gold standard and India was linked to sterling, whereby it has been possible to maintain the existing exchange rate, also indicate the highly unsatisfactory character of the existing exchange ratio. The disappearance of our normal export surplus must be due to the over-valuation of the rupee. It is therefore imperative that the rupee should be devalued at the earliest possible moment so that India might regain her lost foreign markets whereby alone we can restore the normal basis of our international economic relationships.

The case against devaluation.

(1) While Indian commercial opinion has been clamouring for devaluation, the Government spokesmen maintain that no case has been made out for a reduction of the exchange ratio. In the first place, the rupee has already been devalued along with the gradual deprecia-

tion of the sterling, so that 1s. 6d. sterling today means an even lower value than the old 1s. 4d. gold which was formerly claimed to the natural exchange value of the rupee.

(2) *Secondly*, the extra-ordinary currency and credit contraction effected by the Government of India as well as fresh borrowings in the London money market, by no means indicate any fundamental disparity between the external and internal values of the rupee. They are of the nature of emergency measures which every country has to adopt in times of extra-ordinary difficulty. Had there been an independent Central Bank in India, it would have followed the same line of action and there would not have been any public disapproval. It was because of the Government's peculiar position as the Currency Authority and as the greatest operator in the foreign exchange market that public misunderstanding had been aroused. It was also pointed out that the Government had to resort to extraordinary measures during 1907-8 in order to maintain the 1s. 4d. ratio, but nobody had then thought it fit to accuse the Government of manipulation

(3) *Lastly*, as regards Gold Exports, we have already seen, how the Government explained the phenomenon as a perfectly natural and desirable economic phenomenon which was due to the simple fact that we were off gold. The Exchange rate as such had nothing to do with it.

Concluding observations.

It is difficult to resist the impression that both the champions and opponents of devaluation were actuated

more by bias and pre-conceived notions than by calm economic considerations. The shrinking foreign trade of India as well as the unprecedented gold exports were only too easily regarded as proof positive of the over-valuation of the rupee by the devaluationists. The Government, on the other hand, was infinitely relieved when the private export of gold managed the remittance of the Home Charges at the favourable rate of 1s. 6d. It is difficult to believe that the Government would have felt so much enthusiasm for the 1s. 6d. ratio if there had not been any private export of gold to maintain the exchange.

Over-valuation means a higher external value of a country's currency during any given period compared to its internal value.

It can be ascertained only with reference to a previous period when the external and the internal values were in equilibrium. The extent of over-valuation can be measured by the difference in the percentage rise in the external value compared to the average internal value. In the case of India that equilibrium period may be said to have prevailed, say, during 1926-29 when trade, production and other economic activities were more or less normal.

Now the best way of measuring changes in the internal value of the rupee is by noting the changes in the consumption Index Number. But in the case of India there is no such Index Number, the Bombay cost of living Index Number being a very crude approximation thereto. Dr. H. Sinha in a learned article has advocated reliance on the Calcutta Wholesale Index Number for our purpose in the absence of a satisfactory Consumption Index

Number. We, however, do not think that such reliance can be very much useful for our present purpose. The prices of wholesale international goods too clearly reflect the influence of the exchange rate and as such can not indicate the difference between the internal and external value of a country's currency. Indeed, this is the main reason why Keynes rejected Cassel's Purchasing Power Parity theory of foreign exchange. We shall, therefore, rely on a combination of the Calcutta wholesale Index Number and the Bombay cost of living Index Number for our present purpose, bearing in mind all the time the unsatisfactoriness of the method. Now from 1926-29 to 1935-36 the Calcutta wholesale price Index Number fell from 146 to 91. i.e., by 38% approximately. During the same period, the Bombay cost of living Index Number fell from 151 to 102. i. e. by 32% roughly. Indias internal prices therefore fell roughly by 35%. During the same period, the external value of the rupee in terms of commodities and services rose by 40% in the gold bloc and by 32% in the sterling bloc. The rupee was therefore over-valued to the extent of 5% in terms of gold, and under-valued in terms of sterling to the extent of 3%. It was also over-valued in terms of *yen* and some other depreciating currencies. From the above calculation, the case for devaluation does not appear to be very strong. But we must remember the unsatisfactoriness of our method. Moreover, if we compare the trends of our import and export prices during the same period, we find that import prices were on the whole appreciably higher than the export prices. Although high import prices were to

some extent due to the imposition of protective duties, while the Index Number of export prices did not include high priced gold export, there is some presumption that the rupee was slightly over-valued. But in that case if the rupee is to be devalued, there is no question of restoring the 1*s.* 4*d.* Much waters have flowed down the Ganges since the 1*s.* 4*d.* ratio has been dethroned. If, on impartial examination, the rupee is found to be overvalued generally as it clearly is in terms of *gold* and *yen*, it should be devalued just to the extent that is necessary for restoring the parity between its internal and external value. After all, we must remember that when a new and arbitrary rate of exchange is adopted, its unhealthy effects are felt more in the beginning than later on. With the process of time adjustment gradually takes place, so that after some lapse of time, the case for its alteration altogether disappears. In 1931 there was a strong case for a revaluation of the Indian rupee in view of the catastrophic fall in world prices. But the rupee was made to share the fate of sterling for political reasons. In 1938 it is more probable that rupee prices have been adjusted to sterling prices. But sterling is paper and as such may be altered in value any moment. It is, therefore, highly desirable that the rupee should not be linked to a foreign paper currency, but should be adjusted to the world prices in its own way. Devaluation, therefore, should not mean a return to 1*s.* 4*d.* sterling, but to a convenient parity with gold.

Future of Indian Currency

The Reserve Bank Act of 1934 imposes upon the Reserve Bank of India the obligation of deciding the

future monetary standard for India once the world's currency situation becomes more stable and hopeful. We propose to indicate here some of the chief considerations which should guide our choice of the monetary standard.

In the first place, the existing link with sterling has got to go. The sterling-exchange standard which has been virtually functioning in India since 1898 with some 9 years' break has proved to be highly unsatisfactory in character. It gave us a currency which is neither elastic nor automatic, nor safe nor readily intelligible. It has been maintained primarily in the interest of British commerce and for the sake of the easy payment of the Home Charges. It has also been a very valuable instrument for locking up our gold in the London money market. A free India, therefore, can not bless it for a moment.

If the sterling-exchange standard is to be rejected, the only alternative is some form of the gold standard or a managed paper currency standard. A cent per cent paper currency, properly managed, is, of course, ideally the best. But it requires absolute honesty on the part of the Monetary Authority as well as a fairly high standard of average intelligence in the minds of the masses. In the case of India for some time we can be sure of neither. Hence we must have some form of gold standard. At the same time, however, in view of the world shortage of gold, we can not have the luxury of a gold currency. The rupee must function as our monetary unit and it is highly desirable to popularise one-rupee notes among the masses. On the other hand, there must be an adequate quantity of

gold reserve in the Reserve Bank of India which should be available for making foreign payments whenever necessary. The elasticity of the currency system, of course, will have to be secured not by the unlimited purchase and sale of gold at a fixed price, but by experimental methods based upon adequate statistical data.

If, however, popular confidence in such a highly rational system is found to be lacking, the actual circulation of gold coins should be permitted for some time, but the necessary gold should be supplied by the public and not by the Monetary Authority.

Internally the rupee should not be convertible into gold, but for *external* purposes it should have a fixed gold value. At the same time, attempts should be made to stabilise the purchasing power of money itself by reference to a carefully compiled Consumption Index Number.

The monetary standard outlined above is not very difficult to establish provided there is a real determination on the part of the Indian public in general and of the Monetary Authority in particular to have a scientific currency system. The only conditions precedent to such a happy fulfilment are absolute freedom from the domination of the London money market and some amount of educative propaganda among the masses. Above all, the Reserve Bank of India must be bold enough to shake off the old conservative notions of a sound currency system in order to strike out into new and even forbidden paths for fulfilling all genuine currency requirements of the public.

CHAPTER XXI

THE INDIAN BANKING SYSTEM

Historical Retrospect

Money-lending business in India is almost as old as the Rig-vedic Civilisation, though we know very little about its methods and importance. It is only from 500 B.C. onwards that we hear more and more of bankers or *Sresthins* who were found in all important trade centres. The Buddhist literature is full of references to such *Sresthins*. The latter were organized into powerful guilds which played a very important part in the communal life of those days. Those bankers used to lend money to traders, merchants and even to kings whenever the latter were in financial difficulties against the pledge of movable or immovable property or personal security.

In Kautilya's *Arthashastra* we get detailed regulations as regards the rate of interest that might be legally charged from different types of borrowers. For loans given against some form of security the maximum was 50%, while the maximum for unsecured loans was 60%. The *Dharma Shastras* also laid down that the rates of interest should vary according to the caste of the borrower and that only Vaishyas could take up banking as their profession.

From the 12th century onwards, *hundis* or inland bills of exchange became widely used in India. Indigenous bankers not only helped to finance India's internal trade ;

they also financed India's foreign trade. The relations between the rulers and the bankers were very close, though in the days of the decline of the Moghul rule in India, the rapacious rulers did not always keep faith with the bankers. Besides the usual functions of money-lending proper, the bankers of the Moghul period had also to do the profitable business of money-changing, thanks to the large number of coins both gold and silver, which circulated in the different parts of India.

It is interesting to note the parallelism between Indian and European banking in medieval days. In both cases, we find the concentration of wealth in the hands of a few bankers upon whom depended both the traders, merchant-adventurers and even princes. The position of the Jagat-Seths (or world bankers) in India bore a close resemblance to that of the Rothschilds in England.

Indian Banking in the days of the Company

The English Agency Houses.

In the earlier days, the East India Company utilised as best as it could the services of the indigenous bankers from whom it borrowed funds, and who were even partly employed for raising land revenue. The British traders, however, experienced great difficulties owing to their ignorance of the language of the indigenous bankers and also owing to the latter's ignorance of their methods of trade. Hence the English Agency Houses in Calcutta and Bombay began to conduct banking business in addition to their ordinary commercial transactions. But it must be acknowledged in fairness to the early English traders that

they successfully prevented the establishment in India of banks on western lines for a considerable period, on the ground that the Agency Houses and the indigenous bankers were more suited to the banking requirements of the country. The English Agency Houses served for some time as bankers to the East India Company, the civil servants and the European merchants. They possessed no capital of their own and depended almost entirely on their deposits. They also issued paper money. Soon, however, it was apparent that the Agency Houses could not satisfy the growing banking requirements of European merchants in whose interests joint stock banks had to be established.

Earliest Joint Stock Banks.

The first Joint Stock Bank established in India was the Hindustan Bank. It was founded in 1770 by one of the Agency Houses in Calcutta and its business was mainly connected with these Houses. This bank went into liquidation in 1832. About 1785 two more banks, namely the Bengal Bank and the General Bank of India were established. Both these banks had a rather limited career.

The next phase of Indian banking history was connected with the establishment of the so-called Presidency Banks of Bengal, Bombay and Madras. The Bank of Bengal was the first to be established in 1806 under the name of the Bank of Calcutta. It became the Chartered Bank of Bengal in 1809. One fifth of its capital was subscribed by the East India Company which thereby

obtained the right to appoint three of its directors. A civil servant was appointed as its secretary. The Bank conducted the Company's Treasury Bills. Its maximum rate of interest was fixed at 12%. In 1823 it obtained the right of note-issue. In 1839 it was allowed to open branches and to deal in inland exchange but not in foreign exchange.

In 1840 the Bank of Bombay was established and in 1843 the Bank of Madras. A portion of their shares was purchased by the East India Company which thus earned the right to appoint some of their directors as well as the secretary and the treasurer. They were also granted the right of note-issue though within some limits. All of them had the monopoly of Government Banking. In 1862, however, the right of note-issue was taken away from all the Presidency Banks, though as compensation they were given the use of Government balances in the Presidency towns free of any charge.

The Bank of Bombay, however, soon entered upon foul weather following its participation in the wild cotton speculation of 1862-65 which was mainly due to the American civil war. It collapsed in 1868, though a new bank with the same title was set up almost immediately.

The failure of the Bombay Bank led the Company's Government to impose some further restrictions on the activities of all these Presidency Banks. Accordingly, the Presidency Banks Act was passed. The Presidency Banks were prohibited from dealing in foreign exchange and from foreign borrowing. They could not grant loans for more than 6 months or on the security of immovable

property. They, however, retained the monopoly of Government Banking.

The Presidency Banks, though they fulfilled their purpose to some extent, could not satisfy the need for a true Central Bank which came to be felt to an increasing extent. For a long time there were talks, discussions, resolutions, memoranda etc. on the subject of the amalgamation of all the Presidency Banks for the purpose of creating a Central Bank for India *versus* the proposal of of a *bran-new* Central Bank. At last in 1920 the policy of amalgamation achieved victory and the three Presidency Banks of India were amalgamated into the Imperial Bank of India.

The Imperial Bank of India.

The Imperial Bank at the time of its inception was not a full-fledged Central Bank, but it was intended to develop into one such. In 1926, however, the Indian Currency Commission recommended the establishment of a separate Central Bank to be known as the Reserve Bank of India, while the Imperial Bank was to remain as a big commercial bank divested of all its central banking activities.

The Reserve Bank of India.

That recommendation has been accepted and since 1935 the Reserve Bank of India has been functioning at five centres, namely, Calcutta, Bombay, Madras, Delhi and Rangoon. This is the culminating point of banking development in India. So, at last, Indian banks and

banking activities have found a co-ordinating central home which, however imperfect in its arrangement and however unsympathetic, as some may be tempted to say, in its actual working, has nonetheless satisfied a long-felt want and is full of possibilities for the future of the Indian banking system.

We shall now proceed to a somewhat detailed study of the different constituent elements of Indian banking.

Indigenous Banking.

In our study of Rural Indebtedness we have already referred to the vast amount of money-lending business which is carried on by Indian money-lenders and the so-called indigenous bankers. In the villages where most people are either peasants or ordinary artisans, the Indian money-lender is the only fount of credit in as much as it is not possible for the ordinary commercial banks to advance loans to them on account of their lack of credit, their illiteracy, and their scattered existence. The loans advanced by the money-lenders are either for short or for intermediate or for long terms. In the first case, no security is usually demanded, a high rate of interest and the threat of physical violence being considered to be a sufficient remedy for the risk of non-payment. For long period loans, the security of house, land or ornament is usually insisted on.

Indigenous money-lenders, however, should be distinguished from indigenous bankers proper. For, whereas the latter receive deposits or deal in hundis, the former do not do so. Money-lenders of course, sometimes use

funds temporarily deposited with them for safe custody, but this is too rare and uncertain an event. *Secondly*, while indigenous bankers finance trade and industry, the money-lenders finance consumption primarily. *Thirdly*, indigenous bankers are more vigilant about the purposes of any particular loan than the money-lenders. *Lastly*, repayment is more punctual and the rate of interest is generally lower in the case of indigenous banking than in the case of money-lending proper. On the other hand, Indigenous money-lenders and bankers are alike in that both are disorganized, both are scattered and ubiquitous, and both are adapted to the different traditions, habits, customs and needs of the people.

Indigenous money-lenders again may be classified under two heads—*professional* and *non-professional*. The professional money-lender is generally known as Bania, Sowcar or Mahajan, while the non-professional money lenders may be land-owners, well-to-do agriculturists, merchants, pleaders, pensioners, jobbers, Sardars and even priests and widows. Again, among the professional money-lenders some are itinerant like the Pathans and Kabulis in most parts of the country, Rohillas in the C. P., Qistwals and Tharakkars in the U. P., and Gossams and Nagas in Bihar and Orissa, who supply credit to poor labourers, factory workers, menials, peons and low-paid clerks who cannot obtain credit elsewhere. These people are notorious not only for their exorbitant rates of interest but also for their tenacity and rough methods whereby they secure repayment.

The non-professional money-lender, especially when he

happens to be a land-lord or a trader, is generally better placed than his professional brethren in the matter of securing repayments. The land-lord money-lenders are especially most dangerous as they get a double hold over their tenant-borrowers who have to pay both rent and interest and as such are likely to fall into arrears as regards either of these obligations thereby affording the necessary pretext for their ejectment from land.

The Indian money-lenders are notorious not only for their cruel exactions, but also for their dishonest practices. Not infrequently, they demand advance interests, presents etc. from the borrowers and in some cases they do not even hesitate to manipulate accounts whereby a borrower is made to appear to have borrowed a sum much larger than what he actually borrowed. In brief, the Indian money-lender fully deserves the appellation of the village Shylock which Sir Daniel Hamilton has given him, although we recognise his indispensability in the present rural economy of India.

Recent measures for checking the money-lenders.

Before concluding this subject, however, we may mention that in recent times, thanks to vigorous public agitation, the position of the money-lender is becoming less and less dangerous. As early as 1879 the Deccan Agriculturists' Relief Act was passed which, as amended in 1907, enables the Courts to go behind the contracts between money-lenders and agriculturists and to modify them in favour of the latter by reducing an unreasonable rate of interest, granting facilities for repayment by instal-

ments and by preventing the sale of land unless specifically pledged as security. The Punjab Land Alienation Acts, the Usurious Loans Act and the Civil Procedure Code, all these have increased the difficulties of the money-lenders.

Still more recently, the Punjab Regulation of Accounts Act of 1930, the Bengal Money-lenders' Act of 1933, the U. P. Agriculturists' Relief Act of 1934 and the Madras Debtors' Protection Act of 1934, have been passed for the protection of the borrowers. Briefly speaking, the Punjab Act compels money-lenders to maintain a separate account for each debtor in the prescribed way, showing the date and the principal of the loan, the rate of interest, the amount and the date of every repayment, and to furnish every debtor half-yearly with a statement of account showing the amount of the loan outstanding and all transactions relating to it.

The Bengal Act provides that (1) where in any suit in respect of any loan given by a money-lender, it is found that the interest charged exceeds 15 and 25% per annum for a secured and an unsecured loan respectively, the Court shall, until the contrary is proved, presume for the purpose of the usurious Loans Act that the interest is excessive, (2) that where in any suit in respect of a loan it is found that the arrears of interest are larger than the principal of the loan, the Court shall ordinarily limit the amount of such interest recoverable to an amount equal to the principal of the loan; (3) that no money-lender shall recover by suit interest at a rate exceeding 10% per annum in respect of any loan given under a contract which provides for the payment of compound interest.

The U. P. Act similarly lays down that (1) no loan taken by an agriculturist after the Act comes into force shall bear interest at a rate higher than the rate prescribed by the Local Government at the time when the loan was taken ; and similar other provisions.

The prospects of the money-lending business have become still more reduced owing to the activities of Debt Conciliation Boards and of even more drastic legislation passed or proposed since the inauguration of Provincial Autonomy specially in some of the Congress provinces. On our part, while we welcome any measure that is calculated to lighten the burden of indebtedness on the poor peasants, labourers and artisans, we can not, however, help feeling some apprehensions that too drastic steps of an expropriatory character might ultimately dry up the most important source of rural credit available in India at present, which will be nothing short of a national calamity. Hence, until Co-operative finance becomes cheap and abundant, the money-lender should be given sufficient inducement for his existence, although his wings of mischief should be clipped. The true line of reform, short of a complete economic transformation of the country along socialist lines, seems to lie through the education and regulation of the money-lender rather than his complete elimination. In this connection, we fully endorse the proposal of the Central Banking Inquiry Committee that legislation should be passed compelling all money-lenders to obtain licences from Government as otherwise the objectionable practices of unscrupulous money-lenders can not be eliminated for the benefit of the masses. The terms for the licence should be the res-

triction of the maximum rate of interest, more business-like methods such as the keeping up of accounts to be examined periodically by Government auditors, keeping a separate account for each individual borrower and supplying a copy of it to him periodically, giving receipts to all borrowers for repayment, and lastly, if compound interest is charged, the period of compound interest rate must not be less than a year. Several Provincial Inquiry Committees, as well as Mr. Subhedar, of course, have recommended only voluntary registrations both on grounds of practicability and of expediency, but we do not anticipate any such deterrent effects on money-lending activities, nor do we believe that evasion can not be checked if a determined effort is made in that direction. These licensed money-lenders should be given some special privileges such as easy recovery of loans, advances from the Reserve Bank and easy remittance facilities.

So long as the licensing system can not be given full effect to, steps should be taken to reduce the hardships experienced by honest money-lenders in recovering their dues, to induce money-lenders to join co-operative societies on condition that they do not lend privately to the members of those societies, to entrust selected money-lenders with the agency functions of joint-stock banks and to transform them gradually into regular branches of the banks with the gradual development of business. The German "*Kommandit*" system whereby one or more persons manage the Company, and are personally liable to the creditors of the Company, although they do not hold any shares of the Company, may, if adopted, commend itself

much to Indian money-lenders who will thus form themselves into Joint-stock banks in which they will retain an independent position justified by their local knowledge, experience and personal ability.

Secondly, in order to eliminate the malpractices of money-lenders, legislations on the lines of the Punjab, Bengal, U. P., and Madras Acts referred to above, should be passed in all the provinces. Additional measures on the lines of the English Money-lenders Act should be passed, preventing money-lenders from levying any charges for expenses relating to the grant of loans, and increasing interest on account of a default in payment, and prohibiting the enforcement of contracts for the repayment of loans, unless specific provisions to that effect were made at the time of the original loan transaction. Itinerant money-lenders like the Kabuliwallas should also be prosecuted or deported whenever they may be found to be exercising or threatening to exercise physical violence. Above all, extensive propaganda should be made explaining the legal protection enjoyed by borrowers among the illiterate people who may not otherwise realise their altered status.

Indigenous Bankers.

We have already drawn a somewhat blurred line of distinction between money-lenders and indigenous bankers proper and hence we need not define again the connotation of indigenous banking.

Generally speaking, indigenous banking is purely a family business conducted along hereditary caste basis. The Jains, the Marwaris, the Chettis, the Khatris, and the

Sikarpuri Multanis are the principal castes engaged in indigenous banking in the different parts of India.

Indigenous bankers may be classified under two heads according to different principles: (1) those that are urban and those that are rural; (2) those whose main business is banking with trading as a minor subsidiary, and those whose main business is trading with banking as a minor subsidiary; (3) those whose methods are antiquated and those who are gradually taking to modern methods.

These indigenous bankers are still responsible for the largest amount of banking credit available in this country. They discount agricultural paper and *hundi* bills dealing with internal trade. Their business method is not generally very up-to-date and thus they lend more on personal credit than against what can be regarded as first class bills or security. Their popularity and widespread business are also largely due to their relatively elastic and informal methods. Some of these bankers have also offices and branches in several parts of the country and specially in all the important trade centres. Again, though their activities are quite independent some of them are organised into guilds or associations of ancient origin, the main function of which is to settle their disputes. It would have been better if these associations could be utilised for the purpose of disseminating useful information bearing on the credit of distant clients and of enunciating a uniform policy for the members. These indigenous bankers hardly receive any formal banking education. They rely more on experience and family tradition. Their establishments are small and economical.

Their close touch with and personal knowledge of their clients enables them to advance loans more readily than ordinary commercial banks can do. They receive deposits from the public either on current account or for fixed terms, and pay interest on them at rates varying between 3 and 9%. As they seldom fail to make payments whenever demanded, they enjoy a high amount of prestige and esteem among their clients. Some of these bankers, especially the Multanis and the Marwaris, rely more on their own resources than on public deposits. In times of emergencies these indigenous bankers also borrow funds either from the Imperial Bank or from one another.

They seldom finance agricultural operations directly, but only through local lenders and traders. More generally, they finance internal trade and small industries, while some of them keep a portion of their funds on deposit for fixed terms with textile mills. The principal *methods* by which these indigenous bankers lend money may be enumerated as follows :—

(a) One of their usual methods is to lend money on written demand promissory notes which in the case of the larger loans have to be attested by sureties.

(b) A *second* method is to obtain receipts signed by the borrowers acknowledging the loans and stating the agreed rate of interest, in place of the promissory notes.

(c) A *third* method is to give advances against bonds written out on stamped legal forms, which state all the conditions of the loans in detail.

(d) A *fourth* method is to make the borrowers put down their signatures in the bankers' books to which stamps

have to be affixed, undertaking to repay the loans, but the conditions of the loans are left to verbal agreement.

(e) A *fifth* method is to lend on the mortgage of land, houses, and other property.

(f) *Finally*, the indigenous bankers draw and discount *hundis*, i.e. indigenous bills of exchange. These *hundis* are *Darshani* or *muddati*, i.e. demand or usance bills, the latter being payable after a certain period mentioned in the *hundis*. *Secondly*, these *hundis* are either *dhanijog* or *sahjog*, i.e. in cashing the latter, the banker is to make sure that the presenter is entitled to payment, while he has no such responsibility in the former case.

Thirdly, the *hundis* are *dekhanhar* or *firmanjog*, i.e, payable to bearer or order.

Finally, the *hundis* are either *finance bills* or *trade bills*. Finance bills are drawn by merchants who need money on the indigenous bankers' agents, firms or others with whom arrangements have been made beforehand, or they may be drawn as a convenient form of remittance of money from one place to another. Trade bills, on the other hand, are drawn against produce or goods.

The rate at which *hundis* are discounted by indigenous bankers is known as the *Baxaar rate*, which varies between 4 and 14% according to the pressure of business and the nature of the season. Even in the same period. the *hundi* rate may differ in different markets, on account of the virtual immobility of the bankers' funds.

The present position of indigenous bankers.

Indigenous banking, though even now it occupies the

foremost position in the banking system of the country, is now passing through a period of decline on account of a variety of causes. It is finding it difficult to compete with the Imperial Bank in remittance, with the Co-operative banks in deposits, and with the Joint-stock banks in advances. It is thus losing business all along the front. The heavy stamp duty on *hundis* has also had a restrictive effect on the *hundi* business. Again the legal facilities permitted under the Bankers' Evidence Act are not available to them. *Lastly,* their agency business in the markets of the interior is being rapidly lost owing to the establishment of local branches by exporting firms. As the banking business goes on declining, the local bankers become more and more attracted to trade and speculation for which opportunities are increasing.

Relations between indigenous bankers and commercial banks.

Indigenous bankers, as we have already seen, generally rely on their own resources, or borrow from one another in order to meet their demand obligations. In times of emergency, however, they can also borrow from joint-stock banks or from the Imperial Bank, provided their names are on the approved list of these banks. The relations between the commercial banks and the indigenous bankers, however, are none too cordial. The former grant cash credits against demand promissory notes signed by two of the bankers, or by one banker and one merchant, or discount with them *hundis* drawn by traders and endorsed by the

bankers, up to a certain limit assigned by them to each banker according to his financial standing. But they do not accept cheques drawn on individual bankers as the latter do not supply sufficient security and also do not publish a balance-sheet, making it difficult for the banks to determine their financial position. Again, commercial banks sometimes reject applications for credit from established indigenous banking firms as the latter can not satisfy all the necessary formalities.

In discounting *hundis*, the commercial banks insist on trade bills rather than finance bills and even as regards trade bills, only those bills are discounted which happen to be endorsed by indigenous bankers. The facility of re-discounting formerly by the Imperial Bank and at present by the Reserve Bank of India, is also confined to such classes of bills. Another grievance of the indigenous bankers is that they do not get remittance facilities from the Imperial Bank on the same terms as ordinary commercial banks. Above all, it is the most serious defect of the Indian money-market that the two most important credit agencies, namely, the European section and the indigenous section, whose co-operation would be most advantageous for trade and industry, remain separated from each other so that the *Bazaar hundi rate* may be quite different from the Bank rate and the market rate of discount. In such circumstances, no unified credit policy with the help of the Bank rate and open market operations is possible in India.

Defects in the organisation of Indigenous Banking.

(1) The most outstanding defect of indigenous

bankers is their old, antiquated business methods, thanks to their innate conservatism and lack of education. There is an atmosphere of family secrecy about their operations which acts as a great barrier to any useful co-operation between them and the organised money-market.

(2) Secondly, the deposit side of their business is very little developed. The indigenous bankers rely mostly on their own private resources which must necessarily be inadequate for the growing credit requirements of Indian trade and industries. Their social usefulness would be greatly enhanced if they took active steps to attract the scattered savings of the public in order to harness them to banking purposes.

(3) *Hundis* play a comparatively small part in their total transactions which are largely financed by cash.

(4) Above all, the indigenous bankers are insufficiently organised among themselves, and there is hardly any well defined regular relation between them and the organised money-market of the country.

Suggestions for improving indigenous banking.

The problem of improving and of re-organising Indian indigenous banking must be regarded as one of overwhelming importance, if we just remember that the great bulk of Indian credit is still supplied by them both in the rural and in the urban areas. Not to speak of the 700,000 villages where there is no organised commercial bank, it is only in 400 out of 2,500 towns that there is a bank or the branch of a commercial bank. It is not an exaggera-

tion to say that commercial banking along western lines has hardly emerged from its kindergarten stage in India and that for a long time India must depend upon indigenous banking.

Apart from its quantitative importance, the rates at which indigenous bankers lend money do not compare unfavourably with those of commercial banks. Indeed, thanks to their low establishment costs, it is possible for indigenous bankers to supply relatively cheap credit and at the same time to make fairly good profits.

Lastly, the vast experience and personal knowledge possessed by indigenous bankers will be an invaluable asset for re-organising the Indian money-market. Without their active co-operation and training in modern methods, no bill-market can be developed and therefore no unified monetary and credit policy can be pursued. Hitherto in banking as the other spheres, a disproportionately vast amount of energy seems to have been devoted to the problem of raising and refining the super-structure without much attention being paid to the foundations. It is high time that we may all realise that it is the foundations that are most badly in need of repair and that it is on their betterment that the country's prosperity most overwhelmingly depends. The stately mansions in the Clive Street, Calcutta, and the august assemblage of the Reserve Bank's Board of Directors must not lead us to forget that the heart of Indian banking, like the heart of Indian political life, is not in the marble splendour of cities and capitals, but in the scattered and almost invisible countryside and in the odd nooks and corners of congested towns and

cities. It is such scattered rills of credit that we have got to salvage from the debris of archaic forms and that we have to link together for an even distribution of water and for a controlled policy of ebb and flow to be pursued by the Reserve Bank.

We shall now refer to some of the important suggestions that have been made for the improvement of indigenous banking.

(1) The Central Banking Inquiry Committee recommended that those indigenous bankers who have confined or are prepared to confine their activities to banking proper, should be placed on the *approved* list of the Reserve Bank and should be entitled to re-discounting facilities from it.

(2) But though indigenous bankers should be thus regarded as scheduled banks, they should not be required at least for some time to keep a certain percentage of their total balances as interest-free balances with the Reserve Bank. This exemption is advocated on the ground of the inadequate resources possessed by most indigenous bankers.

(3) These scheduled indigenous bankers should be utilised by the Reserve Bank, the Imperial Bank and other joint-stock banks as their agents for the collection of bills and cheques and they should be given the same remittance facilities as ordinary joint-stock banks.

(4) The benefits of the Bankers' Books Evidence Act should be extended to such indigenous bankers.

(5) These approved indigenous bankers should also become full members of the All India Bankers' Associa-

tion in order to receive a stimulus for the adoption of modern methods.

(6) Even those indigenous bankers who can not dissociate themselves from other business and as such cannot be placed on the approved list of the Reserve Bank, should be given every facility by way of advances and discounting by the Imperial Bank and other joint-stock banks.

(7) Indigenous bankers should gradually modernise their methods so as to conform more and more to the methods of joint-stock banks in respect of accounts and audit, use of bills and cheques, prompt receipt and payment of money and conduct of operations strictly according to law.

(8) The indigenous bankers should aim at either a close association with the joint-stock banks according to the German "Kommandit" system or their own evolution into joint-stock banks. Either of these objectives once attained will so revolutionise the existing situation, that the dream of an organised money market controllable by the Central Bank will be easily realised.

(9) The indigenous bankers should also consider the practicability of undertaking and developing the bill-broking business, and performing the same functions in the Indian money-market as those which are performed by the bill-brokers in the London money-market.

It is to be regretted, however, that the Reserve Bank of India, in its Statutory Report has thrown cold douche on the enthusiasm of those who expected it to play a dominant role in re-organising the indigenous bankers.

As the position now stands, the Reserve Bank can do nothing until the indigenous bankers can approximate to the conditions of joint-stock banks. This re-actionary attitude on the part of the Reserve Bank can not be too strongly condemned.

Indian Joint Stock Banks.

Indian Joint Stock Banks are those registered in India under the Indian Companies Act. These banks are required to publish their balance-sheets, audit their accounts, and to submit to Government inspection on the application of a certain proportion of members.

The most important banks are the "Big five", viz. the Central Bank of India, the Allahabad Bank, the Bank of India, the Punjab National Bank and the Bank of Boroda, all of which have deposits exceeding Rs. 5 crores in each case. Joint Stock banks, though registered in India, are not however, controlled by Indians. The management of the Bank of India, for instance, is largely in non-Indian hands. Similarly, the Allahabad Bank is controlled entirely by foreigners.

The progress of joint stock banking in India has been un-even and not at all commensurate with the needs of the country. In particular, Indian joint stock banks have not shown much zeal in the matter of establishing branches. In 1934, there were only 1269 head offices and branches of Indian commercial banks, including the Imperial Bank of India, as against 25,000 in the U. S. A.; 13,200 in Great Britain and Ireland, 4500 in France and 3400 in Germany.

The development of banking in India has been characterised by a crop of bank failures. The People's Bank in the Punjab which had been established by Lala Harkishen Lall in 1901 and which at the time of its liquidation had nearly 100 branches with total deposits exceeding Rs. $1\frac{1}{4}$ crores, failed in 1913. Its failure caused such a great panic that fifty-five other banks went into liquidation. By 1924 altogether 161 banks had failed since 1913 including the Alliance Bank of Simla. The total amount of paid-up capital of these banks amounted to Rs. $6\frac{3}{4}$ crores. Recently, there has been a sensational bank failure, namely that of the Tranvancore National Quilon Bank Ltd. which had branches all over the country. The pity of this latest banking disaster is that the above Bank was a scheduled bank of the Reserve Bank of India which, however, apparently did nothing to check its excesses or to save it during the crisis.

Causes of Bank failures.

The causes of the bank failures particularly during 1913-14 may briefly be summarised as follows :—

(a) The low percentage of cash reserves against deposit liabilities, the average being between 10 and 11 per cent.

This was all the more dangerous in India where banking habits were not yet properly developed, and honourable banking traditions were yet to be built.

(b) The absence of a proper ratio between *authorised* and *subscribed* capital and between *subscribed* and *paid-up* capital.

The paid-up capital was unduly small compared to

the subscribed and authorised capital, so that the actual strength of the bank was not at all properly indicated by the impressive figures of the subscribed and authorised capital. The banks were, therefore, very vulnerable in times of a crisis.

(c) The lack of trained bank managers and directors. The Board of Directors generally consisted of incompetent or apathetic people. Again, some of the managers and directors were not very much scrupulous.

(d) The gullibility of the public, both of the shareholders and the depositers, was a further cause.

The share-holders were duped as they were paid high dividends, although the dividends were actually paid out of their own paid-up capital, and the depositors were lulled by the offer of high interest rates.

(e) Lastly, the Government and the Imperial Bank of India were unsympathetic towards these Indian-owned banks in their hour of need. Not a finger was raised to help some of the deserving banks which went down in the general panic along with the undeserving ones. The absence of a Central Bank was also formerly regarded as one of the prime causes of that spate of bank-failures. The example of the Travancore National Quilon Bank, however, must cause a rude shock to those who have imagined that with the establishment of the Reserve Bank we shall hear no more of bank failures.

Difficulties and defects of Indian Joint-stock Banks.

The *difficulties* as well as *defects* of Indian joint-stock banks may be briefly summarised as follows :—

(a) Indian joint-stock banks have not received from the Government as well as from the public the help and patronage which they had a natural right to expect. They have not been entrusted with any part of the Government's balances, or with the funds of Courts of Wards, Universities, Colleges and other educational institutions, Port trusts, municipalities, encumbered estates and minors' trusts and other trusts. On the other hand, the Indian public have generally shown a preference for investment in land, Government securities and even for maintaining deposits with the Imperial Bank or the Exchange Banks. Of course, the suspicion of the public has been to some extent due to the failure of many Indian banks due to dishonesty or inexperience, but it is also largely due to the greatly privileged position enjoyed by the Imperial Bank and the Exchange banks. Thus, the Indian joint-stock banks have suffered much on account of the unequal competition with European-owned banks. The Central Banking Inquiry Committee have beautifully summed up their position in the following terms ! "On the one hand, they are looked upon as dangerous rivals by the indigenous bankers and on the other, they frequently find themselves in opposition to the old established exchange banks and the powerful Imperial Bank of India. Placed in this position, therefore, they have been called the *cinderella* of the Indian banking system, and have only been able to exist amidst bickerings, suspicions and cut-throat competition."

(b) Indian Joint-stock banks have also been handicapped in the matter of securing proper business for

themselves. In the first place, a large part of the trade and industry of the country is controlled by foreigners who naturally prefer to have dealings with banks controlled by persons of their own nationality. Even Indian firms and businessmen who are in a subordinate relation to these foreign business concerns have found it to be most convenient and advantageous to have dealings with foreign banks only. Secondly, banking business could not be properly developed on account of the lack of genuine trade bills and the absence of bank acceptances. The latter is due to the absence of ware-house receipts, proper railway-receipts, as well as the heavy stamp duty on bills. Again clean advances against the personal credit of the borrowers only which are so very important in the West are practically absent in India both on account of statutory restrictions and the suspicion of the public. Further, as banking business is conducted in English, the lack of the knowledge of English on the part of the great bulk of the Indian people also places a handicap on the development of Indian banks. Other obstacles are the restriction of the right of entry into clearing houses as well as the propaganda carried on by the officers and brokers of European banks against Indian banks.

(c) The business of lending on mortgage by Indian joint-stock banks has further been handicapped by the elaborate system of rights to immovable property recognised by Hindu and Muhammadan laws as well as by the limitation of the validity of equitable mortgages (*i.e.* mortgages effected by a mere deposit of documents without any

mortgage deed or registration) to the three presidency towns and Karachi.

(d) Lastly, the unsympathetic attitude of the Imperial Bank of India which charged a comparatively high rate for the remittance of the ordinary joint-stock banks' funds, which denied them re-discount facilities, and which even showed its reluctance to advance money against Government securities, must be mentioned as a further obstacle to the development of these joint-stock banks. Since the establishment of the Reserve Bank of India, however, this last handicap has been removed.

(e) In addition to these *external* difficulties, the Indian joint-stock banks also suffer from various *internal* difficulties. Having no association of their own for mutual co-operation and consultation, they have shown a lack of *esprit de corps.* Mutual suspicion and jealousy have been the governing motive in their relations with one another. Amalgamation between large and small banks has been the exception rather than the rule. Hardly has any systematic attempt been made to improve the general standard of banking. Some of the directors of these banks have neither been businessmen nor financiers and as such they have not inspired public confindence. In the absence of able leadership, the Indian joint-stock banks have been content to be somewhat ineffectual imitators of European models, and have not shown much originality or initiative in chalking out new lines of development. Possessing neither the high degree of efficiency of the exchange banks nor the simplicity and economy of the indigenous banks, the Indian joint-stock banks have

naturally found it difficult to withstand competition from both of them.

Suggestions for the improvement of Indian Joint-stock banks.

The Central Banking Inquiry Committee recommended the adoption of the following measures for the rapid and healthy development of Indian joint-stock banking :—

(1) The Government should lay down a policy of encouraging the development of Indian joint-stock banks and grant concessions like free remittance facilities, freedom from stamp duties and registration fees, exemption from super-tax for sometime in the case of an amalgamation of two small banks : Facilities which are already enjoyed by co-operative banks.

(2) For removing the unhealthy competition between Indian joint-stock banks and exchange banks, the Committee suggested the formation of an All-India Bankers' Association which would lay down policies of fruitful co-operation between the Indian and the European concerns. Mr. N. R. Sarkar and Mr. Subhedar, however, were in favour of imposing severe restrictions on the activities of the Exchange banks in the interest of the Indian joint-stock banks. They recommended that the branches of the Exchange banks should be confined to the port towns only, that the existing branches of the Exchange banks in the interior should be closed down, that the Exchange banks should not be allowed to receive deposits from Indians or to own more than 40% of the total shares of any Indian joint-stock bank.

(3) The Committee also suggested that the Reserve Bank of India should deposit for the first five years a particular sum with every new branch of an Indian joint-stock bank opened at a centre which has no banking office, that it should grant free remittance facilites in order to equalise interest-rates all the country over, that it should re-discount commercial bills already discounted by the joint-stock banks at special rates below the bank rate whenever possible and that it should develop the use of trade bills in the place of the existing cash credit system. The second and the third recommendations have already been given effect to by the Reserve Bank of India.

(4) The Committee also recommended the removal of certain peculiarities, noted above, of the existing Hindu and Mahommedan laws which make it difficult for the banks to accept immovable property as a normal security for loans and advances.

(5) The joint-stock banks should also develop the practice of "one man, one bank", and be prepared to make clean advances to approved clients. They should be able to secure the necessary information about the financial standing of their clients through their own Information Departments which should be established as well as through the All-Indian Bankers' Association which should build up an organization for the collection of such information.

(6) The banks should also promote the use of vernacular for the conducting of banking business in order to

popularise the banking habits among the largest section of the population.

(7) If regular branches can not be opened owing to inadequate business, sub-branches in the neighbourhood of existing branches may be usefully opened.

(8) Above all, the Indian joint-stock banks should try their best to adapt joint-stock banking to Indian conditions, while placing it on the footing of equal efficiency with the European Exchange banks. They should recruit a staff of officers possessing not only technical knowledge but also a knowledge of local conditions. Attempts should be made to secure the services of the members of indigenous banking families. Again, the hours of business should be adapted to local conditions. Above all, they should develop the trade union spirit which characterises the existing Exchange banks.

III. Exchange Banks.

Nature and origin.

The Exchange banks came into existence primarily to finance the foreign trade of India. As London was practically the world's monetary centre in the pre-War period and as the bulk of India's foreign trade has always been carried on in terms of sterling, the earliest exchange banks in India were invariably the branches of big foreign Exchange banks which had their head offices in London. Later on, however, in the absence of any restriction and owing to the world-wide nature of India's foreign trade, a few Exchange banks have been establish-

ed which have their head offices in the continent, in the U. S. A. and in the Far East.

The most signal characteristic of Exchange banking in India is its absolutely foreign character. It is only very recently that the Central Bank of India Ltd. has established a branch in London which is to deal exclusively in foreign exchange business. The reasons why Indians were unwilling to establish Exchange banks may be briefly summarised as follows :—

(1) The absence of a large amount of capital for commanding credit in the money markets of these foreign centres.

(2) The absence of the capacity to undergo losses for sometime.

(3) The absence of a dependable staff with the necessary knowledge of international exchange work.

(4) The difficulty of securing deposits and other business in those foreign centres.

(5) The implacable hostility of the existing foreign Exchange banks. For all those reasons, Indians did not venture so far to embark on exchange banking inspite of its highly lucrative character. As the Presidency Banks and later on, the Imperial Bank were also debarred by statute from doing any foreign exchange business, the whole business has always remained a close monopoly of the few British and other foreign firms. It was only with the establishment of the Reserve Bank of India that the Imperial Bank of India, itself predominantly European in character, has gained an access into the close preserve of exchange banking.

The Exchange banks of India are generally classified under two heads :

(a) Banks having 25% or more of their deposits in India. (b) Banks having less than 25% of their deposits in India. Examples of the first group are the Chartered Bank of India, Australia and China, the National Bank of India, the Mercantile Bank of India, etc. Examples of the second group are the Lloyds Bank, the National City Bank of New York, Hongkong and Shanghai Bank, etc.

The Business conducted by Exchange Banks.

(a) As already stated, the main business of those foreign Exchange banks is to finance the foreign trade of India. This business again consists of two operations: (a) the financing of the movement of goods from Indian ports to foreign ports and *vice versa* ; (b) the financing of the movement of goods from the collecting centres to the ports, in the case of our export trade and from the ports to the distributing centres in the case of our import trade.

We, first, take up the *first* type of operations. When goods are exported from India to a foreign centre, say London, export bills are drawn by Indian exporting firms, and these bills are generally at *three months' sight* and are usually documentary in character. Most of these bills are D. A. (or documents on acceptance) and only a few of them are D. P. (documents on payment). Some of these export bills are also *sight* bills. Naturally the charge for a three months' bill is higher than for a sight bill, as it includes the payment of the interest. Those bills are sent to London for acceptance by some bank with which the

foreign importers have opened credits. After acceptance they are endorsed by some Exchange bank which discounts it in the open market if it requires a replenishment of its sterling resources or keeps it till maturity. Meanwhile, the Indian exporters are paid in rupees out of the cash reserve of the Indian branches of these Exchange banks.

The financing of India's import trade is somewhat more complicated. There are two methods for financing India's imports from western countries. The first method applies generally to imports by Indians and those Europeans who have no London Houses of standing. In these cases, western exporters draw 60 days' sight D. P. bills on Indian importers which are purchased by Exchange banks. The importers generally accept the bills and then take delivery of the goods from the banks as trustees of the Exchange banks. When the goods are sold, the bills are paid off. The second method is available to those European importers who have London houses of standing, and takes the form of London banks' acceptances of 'house' paper. In such cases, the London exporting houses draw documentary bills on the London offices of the Exchange banks which after accepting them return them to the drawers who discount them in the London money-market. The accepting bank forwards the relavant documents to its branch in India for collection of the proceeds of the goods from the exporting firm's Indian office and a remittance is sent to London at or before the maturity of the bill.

The import bills under both the methods are drawn in

sterling. On the former, interest is charged from the date of the drawing of the bills to the approximate date of the arrival of their proceeds in London generally at 1 per cent higher than the bank-rate in England. The latter bills are discounted at the prevailing market-rate in England which is almost invariably lower than the bank-rate. European importers who have thus London houses of standing have a distinct advantage over the Indian importers who have no such facility.

It is clear from the above description that so long as credits can be opened in London, it must be to the advantage of the Indian traders to be able to draw bills on London, and have thereby access to the discount facilities of the London money-market. In the case of our imports, however, the great bulk of the bills which are 60 days' sight D. P. bills, can not get the benefit of the London discount market. Indians, therefore, have to pay a fairly high rate of interest which is even higher than the bank-rate in England. This disadvantage, however, can be removed, if our import bills are drawn in rupees rather than in sterling, and if a bill-market is developed in India. If we remember that in normal years the value of our import trade amounts to Rs. 230 crores per annum, the conclusion is inevitable that the natural bill-market is in India and not in London. If, however, it is not immediately practicable to develop a bill-market in India or to induce the foreign exporters to draw their bills in rupees instead of in sterling, pressure should be brought to be bear upon the Exchange banks to *accept* the D. P. bills instead of purchasing them, in the same way as 'house' paper of

London exporting houses is now accepted by them, in which case these bills can be discounted in the London money-market. As the situation stands to-day, the Exchange banks deliberately handicap the Indian importers in their competition with European importers who have London houses of standing. Further, now that the Reserve Bank of India has come into existence, attempts should be made to promote the development of a bill market in India for dealing in both inland and foreign bills of exchange. The present dependence on the London bill-market should be brought to an end as soon as possible.

(2) The Exchange banks also finance to some extent the movement of goods from the collecting centres in the interior to the ports and from the ports to the distributing centres. For this purpose they have 19 branches in 11 up-country centres. In up-country centres which do not possess any branch of an Exchange bank, the movement of goods is financed by the Imperial Bank, the Indian joint-stock banks and the indigenous bankers.

(3) The Exchange banks also finance to an increasing extent the *internal* trade of India, *e.g.* the piece-goods trade in Delhi and Amritsar, the leather trade in Cawnpore, and the jute trade in Bengal. The Indian joint-stock banks and the indigenous bankers are thus deprived of a large part of their business.

(4) Lastly, the Exchange banks compete successfully with the Indian joint-stock banks in attracting deposits, making advances, negotiating bills and doing various kinds of agency business in India.

It is clear from the above account that the Exchange banks are by no means exclusively engaged in financing the lucrative foreign trade of India. Their predominance is equally marked in the financing of our internal trade as well as in other internal banking activities. They have earned such huge profits that even after paying huge dividends (between 1920 and 1928 the Hongkong and Shanghai banking Corporation declared a dividend of 64 per cent.) they have found it possible to purchase several Indian joint-stock banks *e.g.* the absorption of the Allahabad Bank by the P. and O. Bank, which in its turn is affiliated to the Chartered Bank of India, Australia, and China, the purchase of Cox and King Companies by the Lloyds Bank, etc.

The Indian case against the Exchange banks.

(1) *In the first place*, the Exchange banks, though they deal with Indian deposits, are not subject to any Indian regulations. Their share-holders and directors being entirely foreign, they are not amenable to any Indian control. Even their accounts may not be properly auditdd. Their published balance-sheets do not give any separate information about their Indian business. Again, these banks obtain large deposits from the Indians, but the depositors have no prior claim even on the assets of the banks in India, if any of the banks become involved in serious difficulties in another country owing to a crisis, fraud or any other reason.

(2) *Secondly*, the Exchange banks have generally maintained a low percentage of cash reserve against their

liabilities in India, the average in 1934 being between 10 and 13 per cent. This is certainly highly dangerous from the stand-point of the Indian depositors.

(3) *Thirdly*, the Exchange banks virtually enjoy a monopoly of financing the foreign trade of India. Indians have been gradually ousted from the field, and even as regards the financing of our internal trade, the Exchange banks are proving themselves to be very formidable rivals.

(4) The Exchange banks are also charged with having made great discrimination against Indians. Even first class Indian importing firms have to deposit from 10 to 15% of the value of the goods with the Exchange banks in order to open a confirmed letter of credit with them, while foreign houses in Calcutta are exempted from such obligations. Again, the Exchange banks do not accept sterling import bills drawn on those Indian firms which have no London house of standing, thereby depriving them of the discounting facilities in the London money-market. This is also a severe handicap to Indian importing firms.

(5) The Exchange banks have also been charged with having discouraged Indian enterprise in several directions, *e.g.* Indian brokers, Shipping companies, Insurance companies, etc. Indian exporters have been compelled to insure their goods with foreign Insurance companies, thereby depriving the Indian Insurance companies of the annual loss of 2 to 3 crores of rupees.

(6) Again, it has been said that the rules of the Exchange banks' Association have been arbitrarily altered without consulting the Indian clients and even without publishing the altered rules for the sake of information.

This has enabled the superior officers of the Exchange banks to make hard and discriminating terms for their Indian clients.

(7) The complaint has also been made that it is because of the existence of foreign Exchange banks that import bills are drawn in sterling rather than in rupees. In all other countries the import bills are drawn in terms of the domestic currency. If the Exchange banks insisted, rupees import bills might easily have come into existence to the benefit of Indian importers and Indian joint-stock banks which would have found a very safe and profitable form of investment in these import bills. It is, however, not to the interest of the Exchange banks to replace sterling import bills by rupee bills, as they earn at present a fairly high rate of interest for 2 or 3 months.

(8) Exchange banks have not confined their business to exchange proper, They have become formidable rivals to Indian joint-stock banks both in the matter of attracting deposits and as regards the financing of Indian internal trade. Their strong financial position as well as established reputation have helped them much in both these directions. But this increases the foreign economic domination over India.

(9) It is also maintained that these Exchange banks, by virtue of their majority in the Clearing Houses, have tried to exclude Indian joint-stock banks from these Houses as long as possible, which has naturally affected adversely the reputation of these banks. Again, while accepting call loan from the Indian joint-stock banks

whenever necessary, they have themselves refused such aid to the Indian banks when the latter were in need of funds.

(10) The Exchange banks have also been charged with maintaining a rigid gulf between the European and the Indian sections of the money-market in India This has prevented the much-needed unification of the money-market in India without which no unified credit policy can be pursued.

(11) The Exchange banks have further been charged with having staffed their superior and responsible posts exclusively w.th Europeans. Indians could only aspire for clerical posts. Indian apprentices have hardly been taken, although the business handled by them is largely Indian, and the necessary funds come generally from Indian depositors.

(12) Above all, the Exchange banks are charged with having exercised tremendous control over the currency and exchange policy of the Government. It is they who have opposed the adoption of the gold standard which would deprive them of much of their present special advantages, and it is they who are responsible for the ratio between rupee and sterling which has been so much disastrous to the Indian people in the past. While carrying on their business with the help of Indian deposits, they have discriminated against Indians in every conceivable way and tried to tighten the strangle-hold of British economic Imperialism upon Indian economic life. Nor can they claim to have discharged their business at a cheap rate. While they have themselves

profited by the low discount rate in the London money-market, they have charged high interest rates from Indian exporters and importers alike. In short, the European Exchange banks and the official management of our currency and exchange, have together constituted one of the most nefarious vicious circles in our economic life.

Proposed restrictions on Exchange Banks.

In view of the highly unsatisfactory nature of the present position and various activities of the Exchange banks, it has been suggested that the Exchange banks in India must henceforward take out a licensing certificate, and that the licensing authority should be the Reserve Bank of India. The terms of the license we shall discuss later on.

The Majority of the Central Banking Inquiry Committee are in favour of the following regulations :—

(a) The Exchange banks should alter the existing practice of buying import bills in favour of accepting them, so that Indian importers might enjoy the cheap discount facilities in the London money-market.

(b) The Exchange banks should also promote the use of rupee import bills and the development of a bill-market in India.

(c) The Exchange banks' Association should consult Indian businessmen as well as foreign merchants before making any alterations in its rules.

(d) The Exchange banks should arrive at some understanding with the representatives of Indian Insurance companies so that they may not discriminate against

them on the ground of inadequate information about the actual financial standing of Indian companies.

(e) There should be a local Advisory Board at every branch of the Exchange banks for giving advice regarding the grant of advances and cash credits to Indian businessmen. The Committee hoped that this device might remove the present complaints regarding the un-sympathetic treatment meted out by the Exchange banks to Indian clients.

(f) Lastly, the Committee recommended that the Exchange banks should be compelled to appoint Indian probationary assistants who, after completing their training period, would be appointed to responsible officers' posts.

Mr. M. Subhedar and Mr. N. R. Sarkar, however, in a separate minute of dissent, wanted far more stringent restrictive measures on the Exchange banks. In their opinion, licenses should not be granted freely to all the existing Exchange banks, but should only be given after due considerations. Further, the terms of the license should not seek only to place European banks on the same footing as Indian banking concerns, as the aim of the licensing system should be to promote national economic policy in banking. The fundamental principle underlying the licensing system, therefore, should be that only Indian banks, registered in India, and controlled by a majority Indian share-holders, should have right to receive freely Indian deposits and to take the help of the Reserve Bank of India. Reciprocity can not obviously be the basis, as the Majority seemed to be inclined to

believe, in as much as it will take a very long time for Indians to start a bank in London. Similarly, there was no fear of retaliation, as in the economic relation between England and India. England had everything to lose and India very little in case any retaliatory war was declared.

In pursuance of the above principle following recommendations have been made :—

(a) The Exchange banks should be allowed to receive deposits from Indians only to the extent that is necessary for financing India's foreign trade in Indians' hands. They should also bring 50% of their working capital from abroad. At present, the Exchange banks are enjoying 'Surplus' deposits which they utilise for competing with Indian joint-stock banks and indigenous banks. To the objection that this restriction involves an arbitrary interference with the freedom of the Indian depositors, it may be replied that such regulations are necessary even in the interest of the Indian depositors themselves who may at any moment be deprived of all their savings if any disaster overtakes the foreign offices of these Exchange banks. Moreover, the present preference shown by some Indians for the foreign banks is partly due to their reputation and partly due to the systematic propaganda carried on by them against Indian concerns. Above all, society has the right to see that national savings should be utilised primarily for the benefit of national trade, industries and banking and for that purpose interference with the abstract liberty of the individual is justified. Another objection raised against the above proposal is that the

restriction of Indian deposits would hamper the foreign trade of India, and would increase the charges for financing the foreign trade which would inevitably be ultimately borne by the Indian producer and consumer. This objection, however, is absolutely irrelevant as the restriction shall not apply to that quantity of deposits which is necessary for the purposes of financing Indian foreign trade, and as the Exchange banks enjoy great facility for borrowing in the London money-market.

(2) Another restriction proposed is on the branch-making activities of the Exchange banks, particularly in the up-country centres. Such branches invariably compete with Indian joint-stock and indigenous banks. It should therefore be laid down that Exchange banks must be confined to the port-towns only. The existing branches should be wound up in the course of a few years. Similarly, Exchange banks should not be allowed to purchase a controlling interest in any Indian joint-stock Bank. Those Indian banks, e.g. the Allahabad Bank Ltd., which are at present controlled by Exchange banks, should be handed over to Indian control in the course of a few years. As things stand today, there is a growing danger that Indian pioneers take great pains in developing a joint-stock bank which, once it stands on a secure footing, may easily be purchased by a foreign Exchange bank by virtue of its great financial strength, and thus the foreign domination of our economic life might continue to increase.

(3) Lastly, it has been suggested that the Exchange banks should not be allowed to engage in trustee business.

in India, that most of their superior officers should be Indians, that in the event of liquidation their Indian assets should be taken over by the official receivers of the Calcutta High Court, that the Reserve Bank should have the right to inspect all their papers, balance sheets, etc. before they are sent to London, that the admission of their branches to the clearing houses and that their eligibility for re-discount facilities from the Reserve Bank should depend upon the discretion of the licensing Authority. Above all, the Exchange banks must not engage in any anti-national activities on pain of the cancellation of their licenses.

It is doubtful however, whether in view of the notorious clauses on safeguards and commercial discrimination in India's new constitution, any such regulation can be made.

The Case for an Indian Exchange Bank.

The majority of the Central Banking Inquiry Committee observed that it is not in the interest of Indian traders and merchants to depend always on the British and other foreign Exchange banks for financing their foreign trade. They admitted that British Exchange banks do not give adequate facilities to non-British traders. It was for that reason that foreign countries having trade relations with India thought it fit to open Exchange banks in India in order to help their nationals in their trade with India. It was therefore imperative that Indian firms, engaged in the export and import trade of the country should be

able to do without the foreign Exchange banks at the earliest possible moment.

With this preliminary observation, however, the majority went on to recommend that with the establishment of the Reserve Bank of India the existing restrictions on the Imperial Bank of India as regards the transaction of foreign exchange business should be withdrawn and that the Imperial Bank should be persuaded to play an important part in the financing of Indian foreign trade. For removing the unsympathetic attitude of the Imperial Bank of India towards Indians, the Committee recommended that the majority of the directors in both the central and the local Boards of the Imperial Bank should be Indians and that the appointment of non-Indians to its staff should be stopped in future except for special purposes with the approval of the Finance Minister of the Government of India. The above reforms were to be the conditions precedent to the grant of the agency work of the Reserve Bank of India to the Imperial Bank. If, however, the Imperial Bank was unwilling to accept this new arrangement or unable to handle exchange business properly, the Committee recommended that a new Indian Exchange bank with a capital of Rs. 3 crores should be established, to be subscribed to by the Indian joint-stock banks as far as possible and by the Government, at the first instance, if necessary. As long as the Government owned more than one-half of the shares (the Government was required to sell off its shares gradually to the public), it would have the right to appoint a majority of the directors of the bank. This bank was to act as an agent of the Exchange bank

with regard to the Government remittance operations, although the Committee was not in favour of giving the bank sole monopoly of Government remittances.

Six members of the Committee, however, submitted a separate minute of dissent. They were not in favour of allowing the Imperial Bank to develop exchange business, so long as the Imperial Bank was mostly controlled by non-Indians. They recommended the immediate creation of a state Exchange bank which was to be given the monopoly of all Government remittances. The bank should be subject to the control of the Reserve Bank of India, and it was to be scrupulously prevented from any encroachment upon the sphere of the Indian joint-stock banks as regards the financing of the country's internal trade.

Lastly, there was a proposal before the Central Banking Inquiry Committee for the creation of "joint-banks" controlled by both Indians and non-Indians, the rupee capital being subscribed by Indians and the sterling capital being subscribed by foreigners, the profits being divided between the two partners.

The Imperial Bank of India.

We have already refered to the origin and the development of the Presidency banks of Bombay, Calcutta, and Madras. The Imperial Bank of India was established in 1921 under the Imperial Bank of India Act of 1920 by the amalgamation of the three Presidency banks. Its total authorised capital is Rs. ~~11¼~~ crores, of which a half is paid-up. The bank is governed both by a Central Board and three local Boards in Bombay, Calcutta and

Madras. Until 1935 the Government exercised a great control over the affairs of the Bank by appointing a majority of the members of the Central Board. For instance, the Governor-General nominated the following members of the Central Board ; two managing Governors. four non-official Governors representing various Indian interests, the three secretaries of the local Boards as well as the Controller of the currency. The elected element was represented by the Presidents and vice-Presidents of the three local Boards. Besides, the Government could issue instructions to the bank on any matter affecting its financial policy or the safety of its cash balances, secure from it any information regarding the affairs of the bank and could appoint auditors for the examination of its accounts. The previous sanction of the Government was also necessary for establishing more local head offices or local boards. Since 1935, however the above control has been withdrawn, although the Governor-General still possesses the right to nominate not more than two directors of the Central Board as well as the right to appoint one Government official.

Functions of the Imperial Bank before 1935.

The Imperial Bank of India sought to combine till April 1, 1935 the functions of a commercial bank with those of a central bank. In its capacity as central bank, it had the following functions :

(1) It acted as a banker to the Government. The Government balances were kept with it, free of interest. This, of course, involved the abolition of the Reserve

Treasury System. The bank also used to manage the Government's public debts and provided a machinery for the issue of Government loans. The Paper Currency Department of the Government of India could also issue loans to it to a maximum of Rs. 12 crores against the security of inland bills of exchange.

(2) It also acted as a sort of bankers' bank. Most of the leading banks of India including foreign Exchange banks used to keep a portion of their cash reserve with the Imperial Bank. The Imperial Bank was also responsible for the management of the 11 Clearing Houses in the different commercial centres of India. The bank also provided cheap remittance facilities both to the other banks and the members of the public.

In its capacity as a commercial bank, the types of business in which it could engage were strictly defined by the statute. Broadly speaking, the bank could receive deposits in India, discount bills of exchange payable in India and Ceylon, invest in certain specified securities, and open cash credits on the security of certain specified securities or of goods or of documents of title to goods, deposited with or assigned to the bank.

The business which the Imperial bank could not transact

(1) The Imperial Bank was, in the first place, prevented from dealing in Foreign bills of exchange. The official justification was that this type of business was highly risky and more or less speculative in character. The Imperial Bank being a central bank, could not, therefore,

be allowed to transact this type of business. The real reason, however, was the jealousy of the British exchange banks which have always looked upon the exchange business as their own close monopoly. Exchange banking is, in reality, not at all risky, as otherwise we can not explain the uniformly high dividends earned by various exchange banks. The bank was, however, allowed to deal in forein exchanges for the bona-fide personal requirements of its customers.

(2) The bank was not allowed to grant loans against securities other than certain specified securities, or for periods exceeding six months or against immovable property.

(3) The bank was also prevented from discounting bills for or advancing money to individuals or partnership firms beyond a fixed sum or on personal security, unless such discount and advances carried with them the several responsibilities of at least two persons or firms not connected with each other in any way.

(4) The bank was also not allowed to receive deposits in England or to borrow money in England except on the security of its assets.

(5) The bank was not allowed to make loans or advances on the security of its own shares.

Critical evaluation of the Imperial Bank's activities.

When the Imperial Bank of India was established, it was expected to inaugurate a new era of banking and commercial development in the country. The bank was

required to establish 100 new branches in the country which would at once promote the saving and investment habits of the public and help Indian commerce, industries and agriculture. It was hoped that the Imperial bank with its numerous branches would be a great bulwark of strength to the Indian joint stock banks, the co-operative banks and the indigenous bankers. It was also expected that the country would for once enjoy an elastic currency and credit system, uniform and comparatively low rates of interest and cheap remittance facilities.

All these expectations, however, were doomed to disappointment except in small parts. True, the Imperial Bank showed great vigour in opening new branches in the first few years after its inception, but practically no new branches have been opened since March 1926. Again, about 50 per cent. of the new branches are situated in places where there had been some Indian joint-stock bank. In those centres, therefore, the Imperial bank has served only to deprive the Indian banks of a large part of their own legitimate business, the prestige of the Imperial bank as a banker to the Government, enjoying Government balances, free of interest, having given it a privileged position vis-a-vis other joint stock banks. Again many of the branches have been run at a loss, which has been possible because of the enjoyment of the interest-free Government balances. Above all, the branches of the Imperial bank do not seem to have conferred much benefits on the localities where they are situated. Rather, they have served to drain away local deposits for the

benefit of the commercial centres. The branch-making activities of the Imperial bank, therefore, cannot be viewed with any approval or complaceny.

Secondly, the Imperial bank has also been charged with making discrimination against Indian business people and commercial firms. The superior officers of the Imperial bank who are almost invariably Europeans have generally favoured European commercial firms in their competition with Indian businessmen.

Thirdly, the Imperial bank is also charged with having made a discriminatory treatment of Indian joint stock banks when the latter were in difficulties. When the Alliance Bank of India failed, the Imperial bank generously offered to pay off one-half of the demands of the creditors of the Bank. But when Indian banks were in trouble, the Imperial bank has not generally shown much enthusiasm for rescuing them.

Fourthly, the Imperial bank is also charged with having denied proper training facilities to educated Indian youths. The officers' posts were until recently almost wholly filled by Europeans.

On the other hand, it is well to point out certain substantial benefits which have been derived from the Imperial Bank, the establishment of the Imperial bank with its numerous branches scattered throughout the country has certainly helped to bring down the rates of interest prevalent in different regions as well as to bring about some form of uniformity of interest rates. The joint stock banks have been compelled to reduce their interest-rates even in regions where there is no branch of the Imperial

bank, lest a high-rate of interest might induce the Imperial bank to open its branches in these regions. The Imperial bank has also helped much to finance the internal trade of the country including the movement of crops. Again, the fluctuations of the *bazaar hundi-rate* in the different commercial centres and in the different seasons of the year have been considerably mitigated by the establishment of the relatively stable Imperial bank hundi-rate. Lastly, the co-operative movement of the country has also enjoyed liberal assistance from the Imperial Bank.

Concluding observations.

The failures of the Imperial Bank of India were partly due to its preponderantly European composition and partly due to its complicated statutory character. The charge of racial discrimination which has been levelled against the Imperial bank is largely correct because of the predominantly European composition of the Boards of Directors and of its superior staff. Again, the Imperial bank could not properly discharge its duties as a bankers' bank as it was itself a commercial bank naturally anxious for reaping maximum profits. It was, therefore, inevitable that its monopolistic use of interest-free Government balances as well as its prestige arising out of its close association with the government would give it a great vantage-ground in its rivalry with Indian joint-stock banks. The statutory exclusion of exchange business, obviously due to the jealousy of the European exchange banks, served only to point out to the Imperial Bank the necessity of developing its business in the field of internal

banking, at the expense of Indian joint-stock banks. Again, if indigenous bankers did not get ready help from the Imperial bank, it was also largely due to ignorance of the European directors and officers about the methods of our native bankers. Lastly, the failure of the Imperial Bank as a Central bank was due to the dual nature of the control over currency and credit exercised by the Government and the Imperial Bank respectively. No Central bank can properly regulate the movement of prices, unless it has got a unified control over both currency and credit. In the case of India, the responsibility for the issue of Currency notes lay with the Government. Even as regards credit, the Imperial bank could not exercise more than a very partial control. In the first place, the money-market of India has never been unified, there being always a wide gulf between the European and the indigenous money-markets. The only control that was possible was in the European section of the money-market. And even in that limited field, the absence of a bill-market proved to be an almost insuperable obstacle.

THE RESERVE BANK OF INDIA.

Origin of the idea of a Central bank.

The idea of a Central bank is almost a century old. As early as 1836, a large body of merchants interested in the East Indies submitted a scheme for a Central bank which would confer monetary stability. The establishment of the Presidency banks, however, put an end to the idea of an all-India Central bank. About 1867 the idea of a Central bank was once more revived, though this time it took the shape of a proposal for the amalgamation of all the three Presidency banks. It was not till, however, 1920 when the Imperial Bank Act was passed that the proposed amalgamation was effected, although the Fowler Committee in 1898, Lord Curzon's Government in 1901 and Mr. J. M. Keynes in 1913 had recognised its necessity.

The Imperial Bank of India, however, which came into existence in January 1921 was not a true Central Bank. As we have already seen, it was a hybrid organism combining the functions of a Commercial bank with those of a Central bank as far as possible. As a Central Bank it enjoyed the balances of the Government which, however, placed it in an extremely privileged position in its capacity as a commercial bank competing with other rival commercial banks. Secondly, the branch-making

activities of the Imperial Bank were detrimental to the development of many ordinary joint-stock banks which were devoid of any connections with the Government. Being thus a formidable rival of ordinary commercial banks, the Imperial Bank could not be a trusted bankers' bank which every Central Bank ought to be. Moreover, unlike other Central Banks, the Imperial Bank did not control the note issue, and as such in the absence of a unified control over currency and credit policy, it became impossible to achieve monetary stability. Above all, the Imperial Bank, because of its alleged hostility towards Indians and Indian interests, forfeited the general confidence of the Indian public upon which the utility of a Central bank so vitally depends.

Proposal to convert the Imperial bank into a Central bank.

As the Imperial Bank, as it was then constituted, was frankly undesirable as a Central Bank, there were two alternative proposals before the Hilton Young Commission: One to convert the Imperial Bank into a full fledged Central bank, and the other to create a *bran-new* Central bank to be known as the Reserve Bank of India.

As regards the first proposal, the arguments in favour of the proposal may be summarised as follows. (1) Historically, the Imperial Bank was created to serve as a Central bank. If, therefore, its Central banking functions were imperfectly fulfilled, it was partly because of its additional role as a commercial bank and partly because of the absence of the note-issuing power. Hence

it was argued that the Imperial Bank could easily be converted into a full-fledged Central Bank both by depriving it of its functions as a commercial bank and by giving it note-issuing authorities. (2) Secondly, it was argued that the Imperial bank, by its prolonged experience as a Central Bank, however imperfect, had already earned the title to become a Central Bank in the fullest sense of the term, and as such it would not be proper to think of any bran-new Central Bank.

As against the above arguments *in favour* of the proposal, the following reasonings were urged *against* the proposal for converting the Imperial bank into a true Central Bank :—

(1) In the first place, it was observed that the Imperial bank was already the biggest commercial bank in the country with a fairly large number of branches. If, therefore, the Imperial Bank was now to be deprived of its character as a commercial bank, it would mean a very heavy blow to the business community who would lose the services of the biggest commercial bank in the country. (2) Secondly, it was argued that the Imperial Bank could play an even more important part in the economic life of the country, if it was freed from those restrictions which had been imposed upon it owing to its dual character as a Central Bank *cum* commercial bank. The Commission might also have mentioned the unpopularity of the Imperial bank among the Indian commercial public owing to its alleged hostility towards Indians and Indian firms.

However, both the Hilton Young Commission and the Central Banking Inquiry Committee recommended the creation of a bran-new Central bank. The Commission also suggested that the proposed bank was to be a private Corporation, though it was to act in close collaboration with the Government. True, Indian public opinion had insisted upon a state bank. The Commission, however, opposed the idea on the ground of principle, as a state bank responsible to the Central Legislature, would be peculiarly open to political pressure and as such the monetary policy of the country would be dictated by the party in power at any particular period of time. The Commission also observed that with very few exceptions, most of the Central banks of the world were private banks, and as such in having a private share-holders' Central bank instead of a state bank, India would be in very good company. Further, the Commission observed that in view of the diversity of local conditions in the different parts of India, the American federal reserve system rather than the British unitary system was most appropriate to Indian conditions. There should be different local boards as well as a central board with a majority of members elected by the share-holders, to manage the affairs of the Central Bank in the interest of the country as a whole and not of certain predominant financial centres.

Lastly, the Commission also recommended certain detailed regulations as regards the principle of note-issue to be adopted, etc. As we have already noticed, the Proportional Reserve system was recommended in superses-

sion of the then existing fixed fiduciary reserve system adopted since 1861. In this latter respect also, the U. S. A. rather than the United Kingdom was held out to be India's model.

The Reserve Bank Act of 1934.

Soon after the publication of the Hilton Young Commission Report, the Government of India sponsored two Reserve bank bills in rapid succession, both of which however, after a stormy reception in the Central Legislature were destined to be torpedoed. When the first bill was introduced, differences, at once arose owing to the controversy between a state bank *versus* a private shareholders' bank. Although, following the Select Committee's recommendation, the principle of a State bank was adopted, no agreement could be reached as regards the composition of the directorate. Ultimately, however, Sir Basil Blackett put forward a scheme which had a fair chance of being passed by the Assembly, but to the surprise and resentment of all, the bill was withdrawn, presumably on the receipt of dictates from White-hall. Next year, i.e, in January 1928 a new Reserve Bank Bill was published which had altogether abandoned the principle of the state bank. That bill was an ill-fated one and was even denied the opportunity of being moved in the Indian Legislative Assembly on the technical ground that the previous bill had not yet been withdrawn.

For some years no further step could be taken in the

direction of equipping India with a Central Bank. Meanwhile, however, the prospect of an All-India Federation embracing both British India and 'Indian' India which was accepted by the British Government at the Round Table Conferences, generated a novel type of pressure for the establishment of a Central Bank in India. It was made perfectly clear by the British Government that Central Responsibility could not be granted unless a Reserve Bank of India, free from political pressure, was established which could safe-guard India's monetary standard and exchange stability. Accordingly, in September 1933, Sir George Schuster, the then Finance Member of the Government of India, introduced a new Reserve Bank bill practically on the lines of the recommendations of the Hilton Young Commission. This bill with some amendments was passed by the Central Legislature in 1934

Constitution of the Reserve Bank.

The Reserve Bank of India which has been functioning since April 1. 1935, is a private share-holders' bank. Its total share-capital is Rs 5 crores divided into shares of one hundred rupees each, fully paid-up. There are five separate registers of share-holders maintained in Calcutta, Madras, Bombay, Delhi and Rangoon, and the nominal value of the shares allotted to these different registers is as follows: Calcutta 145 lakhs, Bombay Rs. 140 lakhs, Delhi 115 lakhs, Madras 70 lakhs and Rangoon Rs. 30 lakhs. All Indian subjects of His Majesty, the British Sovereign, including British subjects ordinarily resident

in India, as well as companies and co-operative societies registered in India and scheduled banks may become share-holders. In particular, subjects of the British self-governing Dominions are not allowed to become share-holders. Each share-holder has one vote for every five shares subject to a maximum of 10 votes. The Bank has got five offices in Calcutta, Bombay, Rangoon, Madras and Delhi and a branch in London. It may establish branches or agencies in any other part of India with the previous consent of the Governor-General-in-Council.

The general management and superintendence of the Reserve Bank is entrusted to a Central Board of Directors, while the five local boards of Directors are primarily advisory bodies to the Central Board and may only discharge delegated functions.

The constitution of the Central Board which consists of 16 members is as follows :—

(a) A Governor and two Deputy-Governors to be appointed by the Governor-General-in-Council after considering the recommendations of the Central Board,

(b) Four Directors to be nominated by the Governor-General-in-Council.

(c) One Government official to be nominated by the Governor-General-in-Council to safe-guard the Government interests and to represent the Government view.

(d) Eight Directors to be elected by the share-holders in the various local registers, two each by Calcutta, Bombay and Delhi, and one each by Madras and Rangoon. Among these sixteen directors the nominated Government official and one of the Deputy-Governors will not have the

power to vote. In practice, so far only one Deputy-Governor has been appointed. The nominated government official is the secretary of the Reserve Bank.

The Local Boards consist of 8 members each, three of of whom are nominated by the Central Board from among the share-holders on the local register with a view to securing the representation of territorial or economic interests, the remaining five being elected by the share-holders on the local register. The Local Board has to advise the Central Board on all such matters as may be specifically or generally referred to it by the Central Board and to perform all other functions which may be delegated to it by the Central Board.

Functions of the Reserve Bank.

(1) The bank may accept deposits, free of interest, from the Government, local authorities, banks and any other person. The provision as regards interest is necessary in order to prevent the Reserve Bank from competing with commercial banks.

(2) The bank may purchase, sell and re-discount bills of exchange and promissory notes, arising out of bona-fide commercial transactions or of trade in Government securities bearing two or more good signatures, one of which must be that of a scheduled bank, and maturing within 90 days from the date of such purchase or re-discount.

(3) The bank may purchase, sell and re-discount agricultural bills, maturing within 9 months, but one of the two signatures has to be that of a scheduled bank or a provincial co-operative bank.

(4) The bank may make loans and advances to Native states in India, local authorities, scheduled banks or provincial co-operative banks, repayable either on demand or on the expiry of fixed periods not exceeding 90 days against trustee securities, gold or silver, eligible paper, promissory notes of scheduled or co-operative banks supported by documents of titles to goods.

(5) The bank may make ways-and-means advances to the Central or the Provincial Governments repayable within 90 days.

(6) The bank may purchase or sell securities of the Government of India and of the Government of the United Kingdom subject to certain fixed maxima.

(7) The bank may act as an agent of the Secretary of State, or of the Central Government or of Local Governments in the matter of purchase and sale of gold and silver, management of public debt, etc.

(8) The bank may also enter into agency agreement with central banks elsewhere.

(9) The bank may borrow money for a period not exceeding one month from a scheduled bank or other central banks.

(10) The bank is also endowed with the monopoly of note issue, subject to certain conditions.

(11) The bank is also authorised to re-discount rupee import bills when they come into existence and to conduct open market operations.

Business which the bank cannot transact.

The bank is prohibited from :

(1) Engaging in trade or having a direct interest in any commercial or industrial undertaking (except temporarily to satisfy its claims).

(2) From purchasing its own shares or the shares of any other bank or company. or from granting loans on such security ;

(3) From advancing money on immovable property or from owning such property (except for its own business premises).

(4) From allowing interest on deposit, and

(5) From drawing or accepting bills payable otherwise than on demand.

Regulations as regards Note Issue.

Although the Reserve Bank of India is based more on the American than on the British model, in one vital respect, it resembles the Bank of England, in that the Issue Department is completely separated from the Banking Department. The Assets and Liabilities of the Issue Department are shown together in a separate place in the published Bank returns. As regards the fundamental principle of note issue, the proportional reserve system rather than the fixed fiduciary note issue system has been adopted. The bank may issue notes of the dominations of 5, 10, 50, 100, 1000, 10000 rupees unless otherwise directed by the Governor-General-in-Council on the recommendations of the Central Board. The bank notes

are declared to be unlimited legal tender and they are guaranteed by the Governor-General-in-Council.

The Assets of the Issue Department consist of the following items :—

(1) Not less than $\frac{2}{5}$ths of the total value of notes issued shall consist of gold coin, gold bullion, or sterling securities, provided that the amount of gold is not less than Rs. 40 crores in value. Again not less than $\frac{17}{20}$ths of the total amount of gold assets is to be held in British India.

(2) The remaining three-fifths may be held in rupee coin, Government of India rupee securities of any maturity, and such bills of exchange and promissory notes payable in British India as are eligible for purchase by the bank, provided that the rupee securities shall not exceed one-fourth of the total amount of the assets or Rs. 50 crores whichever amount is higher (the amount may be increased by an additional amount of Rs. 10 crores with the previous consent of the Governor-General-in-Council.)

(3) For purposes of reserve, gold is to be valued at its per value, i. e. 8·47512 grains of fine gold per rupee, rupee coin at its face-value, and securities at market-rate. Sterling securities are defined as balances at the credit of the Issue Department of the Bank of England, bills of Exchange drawn on and payable in the U. K. within 90 days, and Government securities of the U. K. maturing within 5 years.

(4) It is also laid down that on the date of the transfer of the note issue and of the transfer of the Gold Standard and Paper Currency Reserves to the Reserve

Bank by the Government of India, the gold coin, gold bullion, and sterling securities shall not be less than one-half of the whole amount transferred, while the amount of the rupee coin shall not exceed Rs. 50 crores.

(5) The Act also provides for the issue of tax-weighted notes with the previous sanction of the Governor-General-in-Council for periods not exceeding thirty days in the first instance, which may be extended from time to time, with the previous consent of the Governor-General-in-Council, by periods not exceeding fifteen days. During these periods, the bank may hold as assets gold coin, bullion and sterling securities of less than two-fifths of the total assets. The rate of the tax will increase with every diminution of the proportion of the gold and sterling assets, subject to the maximum rate of 6 per cent.

(6) The bank is under an obligation to supply different forms of currency. It is required to convert all bank notes and the existing volume of currency notes previously issued by the Government of India into notes of smaller denominations or silver coins in such quantities as may in the opinion of the bank be required for circulation. The Governor-General-in-Council shall supply such coins to the bank on demand.

Exchange obligations of the Reserve Bank.

The Reserve Bank is required by the Act to buy sterling and to sell sterling with a view to maintaining the stability of the rupee-sterling exchange rate at 1*s*. 6*d*.. It is also required to devise a suitable monetary standard for India in collaboration with central banks elsewhere, once

the international monetary situation becomes more stable than it is.

Obligation of scheduled banks to the Reserve Bank.

Commercial banks having a paid-up capital and reserves not being Rs. 5 lakhs are generally included in the list of member or scheduled banks. At present, there are some fifty scheduled banks. Every such bank is required to maintain with the Reserve Bank a balance the amount of which shall not be less than 6 per cent. of its demand liabilities and 2 per cent. of its time liabilities at the close of the business on any day. This provision enables the Reserve Bank to centralise the banking reserves in the country in the interest of credit control as well as to provide, however partially, for the liquidity and safety of the deposits of the member banks. Again, each scheduled bank is required to send a weekly return both to the Reserve Bank and the Governor-General-in-Council a balance-sheet showing its total assets and liabilities in every possible detail. Provincial co-operative banks, though they are not required to maintain any balance at the Reserve Bank, may also be required to supply all necessary informations to the Reserve bank.

The Reserve Bank and the Imperial Bank.

Under the Act, the Reserve Bank has entered into an agreement with the Imperial Bank of India, which will last for a period of fifteen years in the first instance and which will remain in force thereafter, unless terminated after 5 years' notice on either side, provided the Imperial

bank maintains a sound financial position. Under the Agreement, the Imperial bank is to be the sole agent of the Reserve Bank at all places within British India where there is a branch of the Imperial Bank and where there is no branch of the Banking Department of the Reserve Bank. The Imperial Bank is to maintain the existing number of branches and can not open a new branch in substitution of an existing branch without the previous consent of the Reserve Bank. The Reserve bank is to pay for the first ten years to the Imperial bank a commission on the amount of the business transacted by the latter on behalf of the former as well as a consolidated amount in consideration of its maintaining its existing branches which will be Rs. 9 lakhs during the first five years, Rs. 6 lakhs during the next five years and Rs. 4 lakhs during the next five years.

The Reserve fund.

Since the Reserve Bank is not a dividend-earning concern and since the maintenance of an adequate reserve fund is necessary both for covering depreciation in the value of its assets as well as for promoting general confidence in the banking system of the country, it has been laid down that out of net profits of the Reserve Bank dividends at the rate of not more than 5% on the share-capital should be declared at the first instance. If there is a surplus, so long as the Reserve fund is less than the share-capital, at least Rs. 50 lakhs of the surplus, or the whole of the surplus, if it is less than that amount, should be allocated to the Reserve fund. After that an additional dividend may be paid on a fixed scale subject to the

maximum consolidated rate of 6 per cent, while the balance will be paid to the Governor-General-in-Council.

The Reserve Bank Rate.

The Reserve Bank is required to publish from time to time the *standard rate* at which it will buy or rediscount bills of exchange or other relevant documents which are clearly defined by the Act. It has got the discretion to discount agricultural bills at concessional rates.

The weekly Return.

The Reserve Bank is required to submit a weekly return to the Governor-General-in-Council of the account of the Issue and the Banking Departments. It is also required to submit an annual account to the aforesaid Authority.

Agricultural Credit Department.

The Reserve Bank has in fulfilment of its statutory requirement opened an Agricultural Credit Department the functions of which are two-fold: (a) Maintenance of an expert staff to study all questions of agricultural credit, which is available for consultation by all public authorities, provincial co-operative banks and other banking organisations. (b) Co-ordination of the operations of the bank in connection with agricultural credit. The Reserve Bank was also required to publish a report on the working of its Agricultural credit Department within three years of its inauguration which Report was published in December 1937. We give below a brief summary of the relevant observations in the afore-mentioned Statutory Report.

The Reserve Bank and the co-operative movement.

After giving a brief critical review of the present position of the co-operative movement in the country the Statutory Report deals with the problems of co-ordination between the Reserve Bank and the co-operative credit societies. At the very outset, the Report emphasises the necessity for the Reserve Bank to maintain large cash reserves in order that it might be a successful bankers' bank. Since the cash reserves of the Reserve bank are intended to benefit the scheduled banks in the times of emergency, they can not obviously be locked up in forms of business which the scheduled banks themselves would not undertake on account of the risk, the length of the period, the lack of liquidity or other reasons. It is therefore obviously impossible for the Reserve bank to lend to agriculturists direct or to advance large sums to co-operative banks for being lent out to cultivators as a matter of course. The Government alone can do this. Co-operative banks, therefore, must increase their own cash reserves by fighting the hoarding habits of the people. The Reserve bank can help only indirectly by making the banking system in the country both safe and stable, which it can only do by maintaining adequate liquid reserve. The Report concludes by observing that the excessive expectations of assistance from the Reserve bank are due to some misunderstanding and by explaining clearly the terms on which the Reserve bank is authorised to lend to provincial co-operative banks and central land-mortgage banks declared to be provincial co-operative banks. The

Reserve banks can make advances in the following manner :—

(a) Loans or advances to provincial co-operative banks and central land mortgage banks declared to be provincial co-operative banks for ninety days against Government paper, against approved debentures of recognised land mortage banks which are readily marketable and declared to be trustee securities.

(b) Loans or advances to provincial co-operative banks for ninety days against promissory notes of central co-operative banks and drawn for financing seasonal agricultural operations, or against promissory notes of approved co-operative marketing or ware-housing societies endorsed by provincial co-operative banks and drawn for the marketing of crops, or on the promissory notes of provincial co-operative banks supported by ware-house receipts or pledge of goods against which a cash credit or overdraft has been granted by the provincial co-operative bank to marketing or ware-housing societies.

(c) Rediscounting of promissory notes of central and mortgage banks maturing within nine months, drawn for financing seasonal agricultural operations, or of promissory notes of approved co-operative marketing or ware-housing societies endorsed by provincial co-operative banks and drawn for the marketing of crops, and maturing within nine months.

The Reserve Bank and Indigenous bankers.

It is a well-known fact that by far the most overwhelming portion of our total rural credit facilities is

offered by the indigenous bankers whether professional like the Banias or Sahukars or private individuals. As these money-lenders, however, charge exorbitant rates and are not very scrupulous in their methods and practices, public opinion has been very restive in this respect. The evils of indigenous banking have been sought to be remedied in three different ways : (a) Reduction or cancellation of old ancestral debts which have assumed colossal proportions ; (b) establishment of rival credit institutions which offer loans at a relatively cheaper rate of interest, and (3) Regulation of indigenous banking activities.

As regards the first, the statutory Report while justifying legislations aimed at the scaling down of old debts, emphasize the recognition of the fact that they are essentially emergency measures to be justified only by the occurrence of unusual circumstances. It also recommends the enactment of simple rural insolvency law for dealing with the cases of hopelessly involved cultivators.

Regarding the second remedy, co-operative credit societies and land mortgage banks have already been established, though the number of the latter is still hopelessly inadequate. All that is necessary is to re-organize the existing institutions with a view to making them more useful and business-like.

Lastly, we have to deal with the problem of the regulation of the indigenous bankers. The Central Banking Inquiry Committee expressed the hope that when the Reserve Bank of India would be established, the indigenous bankers would be linked with the apex bank and thereby get advances and re-discount facilities which

would go a long way towards the equalization of interest rates throughout the country. The Statutory Report, however, makes it clear that nothing can be done by the Reserve Bank unless the indigenous bankers set their own house in order. Indigenous bankers may be treated as scheduled banks only when they develop the deposit side of their business, develop the practice of discounting bills instead of making clean advances as at present, publish their accounts, confine their activities to banking proper, and adopt generally modern banking methods.

Conclusions.

Since the Reserve bank of India has come into existence for little more than three years, it is hardly proper on our part to criticize its activities in any great detail. A few general observations, however, may not be inappropriate. The Reserve Bank, though technically free from all political pressures, looks very much like a gramophone of the Bank of England in its actual operation. It has assumed an unduly conservative view of its duties and it appears to be more attached to the so-called principles of sound finance than alive to its great responsibilities for the economic transformation of India. The establishment of the Reserve Bank seems to have made very little alteration to the status quo in our banking system. What India wants today is a rapid development of diverse types of credit institutions answering the different crying needs of the Indian people, particularly of the agriculturists. Although we do not believe that the establishment of the Reserve Bank can become a panacea for all our economic

ills, we did expect that a new era would be inaugurated with its firm establishment. So far, however, practically nothing has been done. The Reserve Bank has done nothing to re-organise and co-ordinate the activities of indigenous bankers beyond giving some cheap conventional advice, to promote an open bill market in India, to develop the use of rupee import bills, to stimulate the exchange banking activities of Indian joint stock banks, to conserve the gold resources of the country, to regulate the value of the monetary unit in the face of world-wide monetary chaos, and even to run to the rescue of one of the biggest of its scheduled banks when it fell upon evil days. The favoured position of the Imperial bank is still being largely maintained, while the Indian joint stock banks have been definitely cold-shouldered. Thus the Reserve Bank has so far failed to take a dynamic view of its manifold obligations. It is to be hoped, however, that in future the Reserve Bank will learn to get away from its present conservative and re-actionary obsession and will play the part it was expected to play in the banking development of the country.

Concluding observations on the Indian money-market.

We have completed our brief survey of the different constituent elements of the Indian money-market. Before concluding this chapter, we now propose to glance at the picture as a whole in order to point out the main gaps that are yet to be filled before the Indian banking system can take its rightful place alongside other great banking systems in the world.

To begin with, the money-market of a country refers to that special organisation by which the work of supplying money and credit is carried on. In its widest sense, it includes not only the short-term loan market, but also the long-term loan market,the foreign exchange market, the discount market and the investment market. An ideal money-market should fulfil the following criteria ; *First*, it should be *unified* and properly co-ordinated, i.e., there should be some more or fixed relationship between different interest-rates charged on different types of loans and against different types of securities and all the different credit institutions should be amenable to control by one Central Monetary Authority which is to act, so to say, as the conductor of the orchestra. *Secondly*, it should possess *liquidity*, i,e., it should be easily possible to convert more or less frozen assets into liquid cash on relatively easy terms. *Thirdly*, it should have *mobility*, i.e., funds should be capable of being evenly distributed between different places within a country and between different types of business enterprises. *Fourthly*, it should have *elasticity*, i.e., there should be some machinery for relieving monetary stringency in the busy season and absorbing redundant funds in the slack season. *Fifthly*, it should enjoy *stability*, i.e. the money-market should be protected alike from the gusts of undue optimism and the blizzard of undue panic and pessimism. *Lastly*, it should have *adequacy*, i.e. there should be an adequate number of credit institutions answering all legitimate credit requirements of the people for different purposes.

Judged by the above criteria, the Indian money-market

is one of the most imperfect money-markets of the world, although its position today is certainly better than formerly, thanks to the establishment of the Reserve Bank of India. In the first place, co-ordination and unification are largely conspicuous by their absence, although we have got a Central Bank in our midst for the last three years. This is largely due to the reluctance of the Reserve bank to forge a connecting link with the innumerable indigenous banks and bankers in the country who are still responsible for nearly 90% of our total available credit facilities, until and unless the latter modernize their methods so as to approximate to the conditions of joint stock banks. Although we can easily sympathise with the fears of the Reserve bank in establishing direct contacts with indigenous credit institutions whose business methods do not approximate to accepted banking standards, we can not but deplore the fact that no compromise solution has yet been attempted in the interest of a unified money-market in India. In our opinion, the Reserve bank of India forfeits all *reison d'etre* for its existence, once it declares its instability to arrive at some sort of linking arrangement with our indigenous bankers. It is no more possible to control the Indian money-market without the active co-operation of our native credit institutions, than it is possible to play Hamlet without the Prince of Denmark. As things stand today, there is no relation between the *bazaar* hundi-rate and the Reserve bank rate. The latter might remain fairly stable for a long period, but the former may move widely according to the monetary demands of different

seasons and in different places. In this respect, the London money-market presents a remarkable contrast. There the various money-rates follow the lead given by the Bank rate which sets the *tempo* for all.

The absence of a properly developed bill market is also largely responsible for the lack of elastility and liquidity in our money market. It has also largely helped to maintain the existing gap between the European and the indigenous sections of our money-market. Various factors have conspired to prevent the growth of an Indian bill market, such as the absence of bank acceptance business, the drawing of sterling bills both for exports and imports, a baffling variety of customs as regards *hundis*, heavy stamp duty on bills, lack of proper ware-houses, prevalence of cash credit and over-drafts in our inland trade finance, the banks' preference for investment in Government paper, and lastly the unwillingness of the commercial banks to disclose the secrets of their bill portfolio to the Imperial bank which was a formidable rival bank despite its Central banking functions. So far, however, the Reserve bank has done very little to promote the development of a bill market, beyond recommending a substantial reduction in the stamp duty on usance bills. The Bank must take more active steps in order to promote the use of rupee import bills, to stimulate the development of bank acceptance business, and to include the indigenous banks in the list of scheduled banks, before a bill market, so vitally necessary for the liquidity and control of credit money, can come into existence. In the absence of a bill market the Bank Rate in India can not have the same

significance as in England, nor can the Reserve Bank successfully carry out open market operations so long as the indigenous bankers are not brought into some organic relationships with the former.

India has also suffered much from seasonal monetary stringency in the past. The excessive demand for accommodation in the busy season lasting from November to June when the harvesting and movement of crops take place, has been invariably followed by higher interest-rates. As the busy season also coincides with the festival (Holi and Dewali) and marriage season, the demand for loan is still further intensified. The abolition of the Reserve Treasury system in 1921 whereby Government balances are available for circulation, the provision for the issue of 'emergency' paper currency adopted since 1920, the new system of purchase of sterling by public tender whereby it is possible quickly to expand currency in the busy season, —all these steps have contributed to the easing down of the monetary stringency in the country. Above all, the establishment of the Reserve bank registers a definite stride forward. For instance, the Reserve bank has regulated the purchase and maturity of Treasury bills in such a manner as to absorb redundant currency in the slack season and to release additional currency in the busy season. Moreover, the Reserve bank, being the bankers' bank, with the right of issuing notes, discounting bills, making advances and of conducting open market operations, can easily mitigate monetary stringency, if only the money-market of India becomes properly unified.

Last, but not the least, the Indian money market is not yet adequately developed. While there is a banking office in the U. S. A. for every three thousand of the population and in the U.K. for every five thousand, in India there is a banking office available for as many as every four lakhs of the population. Then again, whereas bank deposits per *capita* are about Rs. 1125 in the U. S. A. and Rs. 700 in the U. K., the corresponding figure for India is less than Rs. 7. Such low deposits of Indian commercial banks are, of course, largely due to the low income *per capita* of the Indian people, but they are also partly due to the lack of properly developed banking habits in India. The Indian public have a great preference for the so-called safe investment in Government paper, lands, buildings, ornaments etc. We may also add that the past failures of a large number of Indian joint stock banks had much to do in bringing about the present public distrust of banking deposits. For a proper development of banking in India many things have got to be done. In the first place, there must be a rapid all-round economic development of the country which is a fundamental condition for any large scale improvement of our banking system. Secondly, the number of banks or of the branches of banks has got to be multiplied several times before banking facility may be available to all and sundry, care being taken for a proper regional distribution of banking institutions throughout the country. Again to inspire public confidence in the banks, it is necessary thoroughly to re-organise the Indian joint stock banks so that public confidence may no longer be shaken by sensational bank failures. The Reserve

Bank, too, must recognise its tremendous responsibility in this respect and be prepared to help readily all solvent banks in their moments of sudden crisis.

Further, the Indian banking system must be enriched by a variety of financial institutions answering the different banking requirements of the public. The little banking development that has so far taken place has been almost exclusively in the direction of commercial and co-operative banks. But we also require, and that very urgently, a net-work of industrial banks which will play the same role in the industrialisation of the country as is done by the industrial banks in Germany and Japan. We also recognise that the Reserve Bank can be of very great help in this regard as well.

Lastly, the number of land-mortgage banks has got to be rapidly multiplied if we want to bring about a general revival of agriculture which is and perhaps shall always continue to be the major industry in India. Co-operative banks must also learn to stand on their own legs and must not be any longer dependent upon official spoon-feeding, if they are to play their appointed role in India.

Above all, we must put an end to the existing domination of foreign vested interests in our economic life. The foreign Exchange banks must be compelled to confine their activities to the exchange business proper and their right to receive deposits in India must be strictly restricted. The Reserve Bank must also take proper steps for safeguarding the interests of Indian depositors of these foreign Banks. Steps should also be taken to encourage Indian participation in this lucrative foreign exchange business.

The Imperial Bank should also be transformed into a truly national institution and its privilged position vis-a-vis other Indian commercial Banks should be ended. There is absolutely no reason why the agency work of the Reserve Bank should not be distributed among all the Indian commercial banks including the Imperial Bank of India.

Such then is the brief outline of the picture of the ideal money-market which we envisage. Compared to that ideal, the situation today is very miserable indeed. Yes, there is nothing unattainable in that ideal, provided we have got the necessary amount of will and enthusiasm. It is perhaps futile to expect the Reserve Bank of India, as it is organised at present, to play the dynamic role which it must play for bringing about that high consummation. A free India, however, can not be a silent spectator and must get rid of all obstacles, whether foreign or indigenous. which stand in our way.

CHAPTER XXII

INDIAN FINANCE AND TAXATION.

Evolution of Federal Finance.

Till the year 1833 the financial system of the three Presidencies of Bengal, Bombay and Madras, remained to some extent separate and distinct. At the same time, however, such separation was not very rigid in as much as the surplus revenues of one province, notably those of Bengal, were freely utilized for wiping out the deficits occurring in other provinces. The Charter Act of 1833, however, established centralization, both administrative and financial, with a vengeance. The provinces were deprived of all powers of taxation, and even the smallest item of provincial expenditure had to be sanctioned by the Central Government. The Provincial Governments only obtained fixed lump-sum grants every year, the amount of which depended largely upon the bargaining power of the respective provincial governments. The result was anything but healthy or salutary. There was no incentive towards economy, as a deficit budget in one year was the strongest argument for securing bigger doles in the subsequent year. On the other hand, economy in provincial expenditure was almost invariably penalised by reduced contributions in the subsequent years. Thus centralization had the most demoralizing effect upon the whole spirit of provincial administration.

It was not till 1860-61 that it was officially felt that a system of barren uniformity and pedantic centralization

was unsuited to a country like India with vast continental dimensions and with great diversity of local conditions. Mr. James Wilson, the first Finance Member of India, was the first high official to give vent to this feeling. Proposals for decentralization were also made by Mr. Wilson's successors, namely Mr. Samuel Laing, Mr. Massey, and Sir Richard Temple. Nothing, however, could be done owing to stubborn opposition from the Secretary of State for India, although the principal motive behind all these proposals was the relief of the Central finance.

The first step towards decentralization, however, was taken by Lord Mayo's Government in 1870. The Government of India reserved to itself all the sources of revenue. The Provincial Governments were given fixed grants which, however, they might supplement by means of additional taxation. The practical result was anything but desirable. The grant of the power of additional taxation could hardly make for economical administration in the provinces. It could only result in increased burden on the poor.

The second step was taken in 1877. This settlement assigned to the provincial Governments financial control over services connected with general administration, land-revenue, excise, stamps, law and justice, and at the same time gave them the revenues raised from law and justice, excise, stamps, and some miscellaneous items. The third great step was taken in 1881 when a new principle was adopted wherby the Provincial Governments were to receive a certain proportion of the Imperial revenue

instead of getting a fixed sum of money from the Central Government to make good any excess of provincial expenditure over provincial receipts. According to this settlement, certain heads of revenue were either wholly Imperial or wholly Provincial, while others were divided between the Central and the Provincial Governments. Uptil the war, this arrangement more or less persisted, though with some modifications notably in 1904 when the system of provincial contracts was declared to be more or less permanent.

Indian Finance under the 'Mont-Ford Reforms.

The Government of India Act of 1919 tried to solve the problem of Indian finance by means of a more or less complete separation of Central and Provincial heads of revenue as well as expenditure. The most important Central heads were as follows: Income-tax, customs, certain central excises (e.g., on match, sugar), Railways, Salt, Profits of coinage, Tributes from Native States, opium, net receipts from Posts and Telegraphs, and certain miscellaneous receipts. The most important Provincial heads of revenue were Land revenue, Stamps (both judicial and commercial), Registration, Forests, Irrigation, and certain miscellaneous receipts. The total income of the Central Government in 1921-2 amounted to Rs. 115'21 crores, customs having contributed Rs. 34'41 crores, Income tax Rs. 18'74 crores, salt 6'34 crores, opium 3'07 crores, and Railways 15'21 crores. The total income of the Provincial Governments under the Act of 1919 roughly approximated to Rs. 80 crores, Land-revenue contributing Rs. 29

crores, excise 14 crores, stamps 11 crores. Irrigation 8 crores, Forest 3 crores, and Registration 1 crore.

The Meston Award

The complete separation of Central and Provincial Heads of revenue resulted in a Central deficit of Rs. 9'83 crores, which had to be provided for by a scheme of provincial contributions to the Central Exchequer. Accordingly, a financial Relations Committee was appointed in 1920 with Lord Meston as Chairman to consider this and other allied questions. The Meston Committee recommended a system of initial contributions which were to be gradually reduced over seven years to certain standard contributions from the Provinces to the Centre. The initial contributions were based upon the increased spending power of the Provinces due to the new distribution of revenue heads, and the only consideration borne in mind was that no province should be compelled to resort to fresh taxation or be faced with a deficit because of the contributions. The joint Parliamentary Committee had recommended that in no case should a Province be required to pay more than in the first year and that the standard contributions should be reached by gradual reduction in the aggregate central deficit, the relief being given to those Provinces whose initial contributions were in excess of their standard contributions and in proportion of such excess.

The Meston Award caused a great dis-satisfaction to the different Provinces, owing to the arbitrary nature of the method upon which it was based. Increased revenues

could not be a scientific proof of increased capacity for the payment of doles to the Central Government, irrespective of the needs of the different Provinces. Madras, the United Provinces, and the Punjab suffered most, as their contributions, both initial and standard, were rated at very high figures. Moreover, the Meston Award was based upon false hopes of comfortable Provincial surpluses which never materialized in actual life. Thanks, however, to the gradual improvement of the Central finance, it was found possible to grant substantial remissions in 1925-26, still further remissions in 1926-27, complete suspension in 1927-8, and complete relinquishment in 1928-9.

Critical evaluation of the Financ distribution under the Mont-ford Reforms.

The process of financial decentralization first initiated by Lord Mayo's Government in 1870 was carried to its fullest logical extent by the Government of India Act of 1919. The Joint Parliamentary Committee, however, seems to have tried to solve the problem from the wrong end, in as much as they fancied that it was not possible to grant financial freedom to the Provinces without a complete separation of Heads of revenue. The right approach, perhaps, would have been, if separation of resources rather than separation of sources, were insisted upon. The Committee also seems to have assumed that there is a natural line of demarcation between the Provincial and Central sources of revenue. A symmetrical treatment was meted out to all the Provinces, no consideration having been paid to the elasticities of the

different Heads of provincial revenue, or even to the needs of the different provinces. For example, Land Revenue, which became a provincial source of revenue, meant quite different incomes in Bengal where Permanent Settlement prevailed and in Madras which was mostly on temporary settlements. Again, as income-tax was a Central source of revenue. industrial provinces like Bengal and Bombay which contributed mostly to the income-tax revenue suffered most compared to the agricultural provinces like Madras and the United Provinces. There was a further element of incongruity in the fact that the development of industries was mainly a concern of the Provincial Governments, although the principal benefit from industralization, namely increased yield of income-tax, was to accrue to the Central Government. Again, the Joint Committee gave practically all the elastic sources of revenue like Income-tax and Customs to the Central Governments although its expenditure was by no means elastic and was in fact capable of great reductions, while Provincial Governments were given highly inelastic sources of revenue, like land-revenue and excise, although expenditure was largely expensive in character, the nation-building Departments being provincial subjects.

Among the provincial heads of revenue, Land-revenue was highly inelastic in the permanently settled areas while in the temporarily settled areas it presented a very strong case for reduction if the ryots were to be relieved of their crushing burden of taxation. Excise was a tainted source of revenue and it could only flourish with the increasing drunkenness of the public, a not very

enviable prospect. Stamp, particularly judical stamps, was not a desirable source of revenue, as it could thrive only with an increase in the litigious spirit of the public. Commercial stamp was comparatively elastic, but there was a clear case for it being centrally levied, though for the benefit of provinces, in the interest of uniformity of treatment of all commercial concerns throughout India. Registration was also theoretically elastic, but it could yield increased revenues only very gradually. Forests and Irrigation similarly could not yield increased revenues unless a large amount of capital was initially invested. Thus, the provinces fared very badly under the financial settlement of the Mont-Ford Reforms.

Bengal, in particular, nursed a special grievance as she was deprived of the yield of the jute export duty, although jute was virtually the monopoly of Bengal, and the Bengal Government had to see to the proper development of the jute industry, both in its raw and manufactured forms. Deprived of its very substantial revenues from Income-tax, jute export, and customs in general, Bengal became one of the devastated areas in India, suffering perpetually from deficit budgets, although her contributions to the Central Exchequer were almost exemplary.

Analysis of the different Heads of revenue.

1. Cutoms.

In the early days of the Company rule, there were innumerable customs barriers affecting the inland trade

of the country, besides a low flat rate affecting the export and import trade of the country. The first task of the East India Company was to destroy those inland transit duties in the interest of a unified economic market in India. As regards imported goods, before the Sepoy Mutiny, there was an import duty of 5 per cent on finished goods and $3\frac{1}{2}$ per cent on raw materials. These ordinary rates, however, applied only to British goods. The duties on non-British goods were double the rates on British goods. Besides, uptil 1848 discrimination was made against goods carried in ships of non-British nationality, which had to pay double the duties paid by goods carried on British ships. In the Post-Mutiny years, however, the general rate of import duty was raised to 10 per cent *ad valorem* applicable to all goods, British and non-British. At that time, the Free Trade principle was triumphant in England. Naturally, therefore, British rulers in India were guided by the dominant ideology at Home, and as such they wanted to reduce import duties as far as possible. The general rate of 10 per cent was reduced to $7\frac{1}{2}$ per cent in 1864, to 5 per cent in 1875 and was completely abolished in 1882, though after the resignation of one Governor-General who wanted to retain the duties on cotton imports for financial reasons, but who was over-ruled by the then Secretary of State for India, acting as the champion of Lancashire interests. In 1894, however, owing to budgetary difficulties, it was found necessary to impose a general 5 per cent *ad valorem* duty on all imports except cotton yarn and cotton piece-goods, the exception being again in Lancashire's interest.

As the budgetary difficulties still continued to exist, it was no longer possible to exempt Lancashire goods. To please Lancashire, however, counter-vailing excise duties were imposed on Indian cotton yarn and piece-goods, although there was hardly any competition between British and Indian cotton goods, Lancashire having specialised in cotton of higher counts. This piece of deliberate handicap to Indian cotton interests to satisfy not the material interests of Lancashire but her prejudice and jealousy sent a thrill of indignation throughout the length and breadth of India, and was in fact responsible for the close alliance between Indian nationalism and the Indian cotton interests which is by no means over to-day.

The Great war, which changed the face of the earth so much, was also responsible for various revolutionary changes in the Indian tariff system. For sheer revenue reasons, duties on various types of imports were continually raised, those on luxury goods like motor cars, cinema films, watches, etc. being raised to as high as 30 per cent *ad valorem* in 1922-3. The war also witnessed the introduction of new export duties on jute, tea and hides and skin. In the pre-war period, there was a general duty of 3 per cent on practically all exports up to 1860. Since 1860, however, in conformity with the prevalent laissez-faire ideas, export duties were progressively reduced and ultimately practically abolished.

In the Post-war period, the importance of customs as the largest single source of revenue to the State has generally been maintained, the yield from customs being as high as Rs. 51·17 crores in 1934-5, compared to Rs. 11·13

crores in 1913-14, Rs. 18'18 crores in 1918-19, Rs. 34'41 crores in 1921-2, Rs. 47'78 crores in 1925-26. In the Post-war customs system, however, two changes have appeared. First, the adoption of the policy of discriminating protection by India following the recommendation of the Indian Fiscal commission. Secondly, the virtual introduction of the policy of Imperial preference at first by small instalments and later on on a very comprehensive scale with the conclusion of the Ottawa Agreement and the Indo-British Trade Agreement. The policy of protectionism, in so far as it becomes successful, is found to affect the revenue from customs, in as much as the protectionist ideal requires the minimum foreign imports which necessarily mean greatly reduced customs revenue. Secondly, the policy of Imperial preference, in so far as it succeeds in transferring imports from foreign countries to the preferred Imperial countries, must also tend to diminish customs revenue. In actual practice, however, customs revenue has on the whole increased rather than diminished inspite of our adherence to the protectionist *cum* preferential system. Nevertheless, the Government of India have already resorted to an effective offset against the possible diminution of customs revenue in the shape of certain central excise duties on sugar and matches. It is also clear that in view of the principle of national self-sufficiency which is finding an increasing number of adherents all the world over, the future of customs revenue is none too bright. That means that India will have to depend less and less upon customs revenue which to-day is the principal pillar of our central finance.

II. Income-tax.

Income-tax was first imposed in India for five years in 1860 to meet the financial burdens of the Sepoy Mutiny. Income then included agricultural income. In 1867 another Act was passed imposing a license tax on trades and professions, excluding, however, agriculture. This tax was first imposed for five years, and then it was renewed in 1877 and it continued to exist in some shape or other till 1886 when it was converted into an income-tax applying to British India as a whole. Attempt was then made to include agriculture incomes within its scope, but thanks to the relentless opposition of the Zemindars who regarded the attempt as a violation of their fundamental rights under the Permanent Settlement (a perfectly groundless objection in view of the fact that the first Income-tax Act included agricultural incomes), agricultural incomes were exempted from such taxation. According to the Income-tax Act of 1886, annual incomes between Rs 500 and Rs. 2000 were to be taxed at the rate of 4 pies in the rupee, while on incomes over Rs. 2000 and on all profits of companies the tax was 5 pies in the rupee, there being no further gradation in the tax. In 1903, owing to a favourable condition of the central budget, the exemption limit was raised to all annual incomes between Rs 500 and Rs 1000. Before the war, income-tax yielded only Rs. 3 crores per annum. The richer classes were taxed very lightly, there being no super-tax or progression. Duing the war and the Post-war period, however, both super-tax and the progressive principle were introduced

while the machinery of income-tax was greatly improved in 1918. In 1919 the exemption limit was raised to all incomes below Rs. 2000 a year, while an excess-profits tax was imposed on business incomes in excess of Rs. 30,000. In 1921 and 1922, still steeper progression was introduced both in the scale of ordinary income-tax and of super-tax. In 1931, in view of the great economic depression, a surcharge was imposed of $\frac{1}{8}$ of the existing rates of income-tax in the financial year 1931-2 and of $\frac{1}{4}$ of the existing rates in the next financial year. The exemption limit was also lowered to incomes below Rs. 1000. Since 1936, however the taxable minimum has been raised to Rs. 2000, while some reductions have been made in the extra-ordinary surcharges imposed during 1931.

The Income-tax law, as it exists today, has been considerably modified and modernized in the course of successive Income-tax Acts. Nevertheless, however, compared to the Income-tax system elsewhere, a great deal of lee-way is still to be made. No discrimination is made between earned and unearned incomes, or between married people and bachelors, or between married people with children and other dependents and married people without children. The super-tax can be made even still more progressive particularly when there is no death-duty to act as a supplementary deferred income-tax. Again income from foreign investments is not yet taxed, though in England and other countries, income originating from abroad is taxed at a progressive rate on the accrual basis. This last defect, however, is likely to be removed by the latest Income-tax bill which is just now being discussed

in the Indian legislature. Above all, however, the gravest defect of the Indian income-tax system is the exemption granted to agricultural incomes. As India is largely an agricultural India, this exemption has virtually paralyzed Indian income-tax as a source of revenue to the state. It is preposterous that land-lords, particularly in the permanently settled areas, who are enjoying large annual incomes thanks to the mistaken generosity of Lord Cornwallis should be allowed to enjoy exemption from income-tax, while the rest of the community with hard-earned incomes is made to submit to such taxation. It is gratifying to note that already in Bihar, thanks to the Congress ministry, a bill has been passed imposing taxation upon landed incomes. A tax upon agricultural income is vitally necessary not only in the interest of justice as between different classes of people, not only to provide essential additional revenues for the provincial governments who have to face the Herculean task of fundamental national reconstruction with incredibly slender resources, but also to prevent the diversion of capital towards landed investment, a tendency which is so clearly manifest on account of exemption from income-tax of all agricultural income. The exemptions enjoyed by other persons and bodies in India such as consuls, ambassadors, etc. of foreign Governments on grounds of political courtesy, co-operative credit societies in respect of their profits on economic grounds. and benevolent institutions like the Ramkrishna Mission, Servants of of India Society, etc., on social grounds, we have no reasons to complain against.

III. Salt-tax.

The Salt-tax is one of the oldest taxes in India, being inherited by the British Government from its Moghul predecessors. Before 1882 the rate of the duty varied from province to province. In that year, however, a uniform rate of Rs. 2 per maund was imposed throughout India, which rate was raised to Rs. 2-8as. per maund in 1888. From 1888 to 1903 the rate continued to exist at that high level, after which it was progressively reduced to Re. 1 in 1907. At present the rate is Re. 1-9as. per maund.

There are principally two methods for levying the duty. (i) The Government manufactures the salt or obtains a monopoly of the supply of salt manufactured by private individuals. The Government then sells the salt to the wholesale dealers on payment of the duty. (2) Secondly, the Government levies an excise duty on salt manufactured by private individuals who are then allowed to sell it either to merchants or to consumers directly. The yield from salt generally varies from Rs. 6 to Rs. 7 crores.

Criticism of the Salt-tax.

The Salt-tax is perhaps the most unpopular single piece of taxation in India. Its unpopularity is due to the fact that salt is one of the barest necessaries of life, consumed by the poorest equally with the richest among us. It is therefore a most regressive form of tax, as the proportion of income spent upon the purchase of salt is incomparably

greater in the case of the poor people compared to the rich. The salt-tax is also held responsible for the poor physique of the Indian masses, as it has been found that every reduction in the salt-tax has been followed by increased consumption of salt.

The official justification for the retention of the salt-tax has been at times ingenious and sometime purely opportunistic. It has been held for instance that the salt-tax is the only tax that is paid by every member of the community, a fact which can not help awakening a sense of political responsibility among the masses. We can only retort that for once the official apologists have misfired, as the argument of Mill that "some taxes should be felt by every member of the Community" applies only to direct taxes. The salt-tax is a notorious example of an indirect tax and as such it is not necessarily felt by the poor and illiterate masses. Moreover, even assuming that it is felt, we fail to realize how the disenfranchised millions of India can profit by a tax which deprives them of the barest necessaries of life and thereby help to emasculate them still further. The only possible political effect of the salt tax, therefore, can be to embitter the masses against the alien bureaucratic government, It is by no means an accidental coincidence that Mahatma Gandhi with his uncanny insight into the heart of peasant India should have deliberately chosen to break the salt law in his historic Dandi march. The deliberate violation of the salt law which forbids the private manufacture of salt except under license had the greatest symbolic value to the Indian peasantry who have always looked upon the

salt tax as a concrete proof of their economic and political thraldom. . Opportunism, therefore, is the only argument that may be advanced in favour of the salt tax. It is highly desirable that the salt tax should be abolished the moment India becomes the mistress in her own house.

IV. Opium

Opium as a source of revenue is a matter more of academic than of practical interest. In the three years before 1913 opium yielded an average of Rs. 8 crores. The Government either manufactured opium in its own factory or imposed an export duty on opium sold out by the Indian states of Rajputana and Central India or simply imposed license fees on all opium meant for internal consumption. China was the biggest consumer of Indian opium. In 1907, however, under pressure from Whitehall, the Government of India entered into an Agreement with the Chinese Government whereby the former agreed to limit progressively its sale of opium to China with a view to its ultimate cessation. As a matter of fact, all export of opium has ceased since 1936. The only revenue from opium at present is derived from the limited consumption of opium in India proper. As, inspite of the stoppage of Indian opium exports to China, China has not given up her habit of opium consumption, the Agreement between the Government of India and the China Government has been condemned by some Indian critics on the ground that British righteousness has been satisfied at the expense of India. There is a particular force in the argument in that Britain has not so far hesitated to spread the drink-

ing evil far and wide in India both in the interest of British manufactures of alcoholic drinks and. of excise revenue for the various Indian governments. British convictions about the evils of intoxication, therefore, can not be very deep or sincere. While with-holding any praise for the apparently self-denying ordinance on the part of the British Government, we can not, however. repent the loss of opium revenue, as being prohibitionists at home, we can not help being prohibitionists abroad.

V. Excise.

The excise revenue in British India is derived from the manufacture and sale of intoxicating liquors, hemp, drugs, opium and so on. It is levied both in the form of duty on manufactures and of fees for sale licenses. In 1861-2 the net excise revenue was slightly higher than Rc. 1 crore. In 1929-30, however, the net revenue exceeded Rs. 18 crores. Major portion of this revenue is raised from the sale of country liquors. The usual system followed in regard to country liquor excise has been that of granting by contract the right of wholesale supply for a district and of auction sales of the right of retail sales. The excise policy of the British Government has come in for very severe criticisms from Indian public men of practically all shades of opinion. The Government's apology has always been that its policy is to reduce the consumption of alcoholic drinks to the furthest possible extent by imposing high excise duties. If duties have not been higher still, it has been due to the apprehension that too high duties might easily lead to evasion, smuggling, illicit distillation, etc. Indian public

men, on the other hand, have always asserted that the Government's excise policy has always been so adapted as to secure the maximum possible revenue. The fact that the Treasury's gains are more than offset by the demoralization of the people did not deter the Government for a moment. Extremist political leaders have even ventured to express their opinions that the British Government deliberately encouraged the spread of the drinking evil in order to demoralize the people who could thus be kept in perpetual subjection to the British rule in India.

Whatever the real motives behind the excise policy of the British Government in the past, Indian opinion of the advanced school has emphatically demanded complete prohibition in India involving, of course, complete cessation of the excise revenue. In the Congress provinces particularly since the acceptance of office by the Congress ministers, the prohibitionist experiment is being made so far fairly successfully. The Congress ministers are at present trying to establish absolute prohibition in certain selected areas, before establishing it on the province as a whole. The prohibitionist policy of the Congress applies to all except Europeans and aboriginals. Foreign critics sometimes observed that the prohibitionist experiment in India will share the same fate as its American counterpart did a few years ago. Mahatma Gandhi, however, has challenged that view as being based on a false analogy. In Gandhiji's opinion, the drinking evil has never been deeply rooted in the Indian soil. Our social traditions, climate, religion as well as the economic means at the disposal of the ordinary man,—all are against the drinking evil. If, never-

theless, drunken-ness has so far been on the increase, it is primarily because no systematic effort has been made to exorcise the public mind of the drinking evil. Gandhiji rather regrets that prohibition is not being introduced with the utmost possible rapidity, that the Congress ministers are looking upon the experiment in a more or less *bania* spirit, reckoning the loss of revenue before proceeding forward in the prohibitionist direction. To the argument that too rapid a pace might embarrass the provincial exchequer, Gandhiji has replied that in all vital matters affecting the real well-being of the people, the question of cost is more or less irrelevant. We do not mind spending lavishly for the happiness of our parents and children, although they do not yield any return to our investment in them. India must do without the tainted excise revenue, however much our exchequer might be affected by it.

Land Revenue.

The total amount of land-revenue collected in British India amounted to Rs. 30·68 crores in 1932-3, compared to Rs. 35·27 crores in 1927-8. The fall of revenue by nearly Rs. 5 crores was due to the great economic depression which affected agriculture even more severely than manufacturing industries.

Land-revenue, as a source of income, has lost its pride of place since the last Great War. In the early days of the Company and during the Hindu and Moslem eras of Indian history, land-revenue was by far the most important source of revenue to the state. The Hindu monarchs

generally claimed one-sixth of the produce of the soil as the state's share, while Moslem rulers's claim varied between one-half and one-third of the produce of the soil. During the British rule, in areas outside the scope of the Permanent Settlement, the share of the State has varied between 25 to 70% of the net produce of the soil. In the permanently settled areas, due to the short-sightedness of Lord Cornwallis, the share of the State has been unduly limited, while the Zemindars have waxed fat at the ryots' expense. Indeed, the lot of the ryot is perhaps much worse in the permanently settled areas than in the ryotwari and mahalwari areas, though it is much improved to-day thanks to the passing of a series of tenancy legislations.

Land revenue, whether viewed as a tax or a rent, in its present force, imposes a severe burden on the poor ryots. The Indian ryot is notoriously and almost indescribably poor thanks to a variety of causes. He can hardly shoulder the burden of land revenue unless it is drastically reduced. If Swaraj means freedom of the masses, particularly economic freedom. it is essential that the State must exempt a very large number of cultivators from all obligations to pay land-revenue, unless the productivity of the soil is greatly improved by the application of new methods. In a civilised government, land-tax can at best play an important role in local finance. The State is justified only in taxing heavily the big land-lords, if their existence is not wiped out altogether. In India, however paradoxically, the big land-lords who enjoy huge unearned increments of the value of land, have practically escaped

altogether the burden of taxation, while the poor ryot has been selected as a target for all types of attacks by the tax-collector

Federal finance under the New Constitution

The Government of India Act 1935 which has established the so-called Provincial Autonomy in the British Indian Provinces, and which also embodies a definite scheme for an All-India federation, has naturally introduced some alterations in the scheme of federal finance. Under the new scheme, the following taxes can be levied by the federal Legislature :—

(1) Customs duties including export duties.

(2) Excise duties on goods manufactured or produced in India except alcoholic liquors, opium, hemp, drugs, and medicinal and toilet preparations containing alcohol.

(3) Corporation tax.

(4) Salt.

(5) Taxes on income other than agricultural income.

(6) Taxes on Capital except agricultural land.

(7) Duties on succession to property except agricultural land.

(8) Stamp duties in respect of all Commercial transactions including policies of insurance.

(9) Terminal taxes on goods and passengers carried by Railway or air.

(10) Taxes on Railway fares and freights.

The list of revenues to be raised by the Provincial Legislature has been given as follows :—

(1) Land-revenue.

(2) Excise duties on alcoholic liquors for human consumption, opium, hemp, narcotics, drugs, medicinal and toilet preparations containing alcohol.

(3) Taxes on agricultural income.

(4) Taxes on lands, buildings, hearths and windows.

(5) Duties in respect of succession to agricultural land.

(6) Taxes on mineral rights.

(7) Capitation taxes.

(8) Taxes on professions, trades, callings and employments.

(9) Taxes on animals and boats, on the sale of goods and advertisements.

(10) Local cesses.

(11) Taxes on entertainments, amusements. betting and gambling.

(12) Judical stamp.

(13) Duties on passengers and goods carried on inland waterways.

The above list of revenues to be raised by the Federal and the Provincial Legislatures respectively, however, by no means coincides with the revenues to be enjoyed by the Federal and the Provincial Governments. For example, the Act has laid down that a prescribed percentage of the income-tax is to be handed over to the Provinces. Similarly the Act laid down that a part of the proceeds of the Jute export duty is to be paid to the Jute-growing provinces. The actual details of such transfer, however, were to be decided by an expert committee. That expert committee

was presided over by Sir Otto Niemeyer. We summarise below the principal recommendations of Sir Otto Niemeyer.

The Niemeyer Award.

(1) **Income-tax**: The Act laid down that a prescribed percentage of the income-tax, except in respect of the incomes of federal officers and of incomes of persons residing in federally administered areas, is to be assigned to the provinces. Sir Otto fixed that percentage at fifty per cent. In his calculation, the provinces would thereby be entitled to receive Rs. 6 crores. The above sum, however, was not to be paid to the provinces for the first five years during which the Centre was to consolidate its position. It was, however, to be handed over to the Provinces during the next five years by six equal instalments, provided of course, that the portion of the distributable sum remaining with the Centre together with any contribution from the Railways aggregates to not less than Rs. 13 crores.

(2) Contributions to the Provinces.

Sir Otto, who was entrusted with the responsibility for making the New constitution a practicable proposition in a financial sense, recommended the following scales of assistance to the Provincial Governments.

(1) Cash subventions were to be granted to the following provinces as follows:

Sind—105 lakhs to be reduced by stages after ten years.

N. W. F. Province—100 lakhs subject to re-consideration after 5 years.

Orissa—40 lakhs.

Assam—30 lakhs.

U. P—25 lakhs for five years only.

3. Assistance was to take the shape of the cancellation of a part or whole of the whole Provincial debts to the Central Government. In the cases of Bengal, Bihar, Assam, Orissa and the N. W. F. province, the entire debt has been cancelled, while in the case of the Central Provinces the whole of the pre-1936 deficit debt plus nearly Rs. 2 crores of pre-1921 debt have been cancelled.

4. Lastly in the case of Bengal and other jute-growing areas an additional 12½ per cent (totalling 62½ per cent) of the jute export duty was to be handed over by the Central Government.

Niemeyer Award and the Provinces.

Sir Otto Niemeyer recommended his scheme of assistance to the different Provinces more in a practical and realistic spirit than according to any abstract theoretical principle. His primary motive was to ensure the success of Provincial Autonomy from the financial point of view and as such he had to base his scheme of subventions on the extent of provincial deficit, rather than on the justice of the claims put forward by the different Provinces. Sind, for instance, obtained 105 lakhs for a period of ten years, after which it was to be reduced gradually. The future of Sind, Sir Otto observed, was wholly bound up with the financial future of the Lloyd Barrage. He believed that with the growing prosperity of Sind, it would be possible to levy barrage assessment rates

which would form an important source of revenue to the Province. We may mention here that the attempt of the present Sind Cabinet to levy barrage assessment taxes has created a great element of discontent among the progressive sections of Sind public opinion.

The N. W. F. province, Orissa and Assam are also permanent deficit provinces. Hence Sir Otto had to recommend generous assistance to them. The N. W. F. province, for instance, had been receiving an annual subvention of Rs. 1 crore from the Central government. Sir Otto recommended a continuation of the same plus an additional Rs. 10 lakhs for five years in the first instance. He apparently contemplated the frontier province remaining as a permanent deficit province. For Orissa, which is also one of the poorest provinces in India, Sir Otto recommended an annual grant of Rs. 50 lakhs *plus* some non-recurrent grant in the first two years. Apparently, Orissa like the N. W. F. province was contemplated to be a permanently deficit province. Sir Otto also regarded Assam as a permanently deficit province and suggested an annual subvention of Rs. 45 lakhs in addition to the existing Central contribution to the cost of the maintenance of the Assam Rifles and the Manipur Battalion and the promised further contribution to the cost of the remaining Assam force (totalling altogether Rs. 22 lakhs). On the other hand, however, Sir Otto dismissed the claim of Assam to the proceeds of the excise duty on Assam oil. Of the remaining Provinces, Bengal seems to have been most justly treated. Her claim to a share of the proceeds of the jute export duty has at last been recognised, and by

that one act Bengal has ceased to be a part of the devastated areas in India which she had been under the Meston Award. Bengal and Bombay have also been promised substantial revenue from income-tax, though this prospect is at present only of academic interest. Bombay, the Punjab and Madras have on the whole fared badly under the Niemeyer Award. But Sir Otto has pointed out that Bombay has profited much from the separation of Sind, while the Punjab and Madras have similarly benefited from the creation of the separate provinces of the N. W. F. Province and Orissa. The U. P., C. P. and Bihar have also come off rather badly, the subventions recommended for them being Rs. 25 lakhs, Rs. 15 lakhs and Rs. 25 lakhs respectively, though Bihar has secured an additional benefit to the extent of Rs. 8 lakhs per annum from the separation of Orissa.

Concluding observations on the Niemeyer Award

The Niemeyer Award, as we have already observed, is conceived in a thoroughly realistic spirit in order to make the New constitution a success both in the Provincial and in the Federal spheres. It is necessarily based upon the existing Status Quo of Central expenditure, however unreasonably high and extravagant it might appear to us. Moreover, Sir Otto had to ensure the adequacy of Central revenues in the interest of the financial stability of India as a whole. The redistribution of revenues between the Centre and the Provinces had, therefore, to take place in a rather niggardly and calculating spirit. Little attention seems to have been devoted to the growing needs of the

Provinces in respect of the nation-building departments. Again as between different Provinces, those who did best to curtail expenditure in order to ensure a balanced budget, e.g., Bombay, have been penalised by grant of the smaller subventions, while a premium seems to have been set upon the extravagance of certain other Provinces which have not hitherto believed in the doctrine of balanced budgets. Further, richer provinces had to forego a part of their legitimate claims for the benefit of their poorer sisters. On the other hand, no single province seems to have been wholly pleased with the Niemeyer Award. For example, Bengal which has benefited so much under the Niemeyer Award compared to the Meston Award, still complains that she has not got the entire proceeds from the Jute export duty. With far greater reasons, Assam complains that her claim to the proceeds of the excise duty on Assam oil has not been recognised, while Bombay murmurs that she should have obtained the proceeds of the Cotton duties. Every one seems to be jealous of Bengal. Critics argue that Bengal should pay the penalty for her own sins of having the Permanent Settlement which has paralysed her income from land-revenue.

But the severest criticism to the Niemeyer Award has been evoked by its recommendation as regards the distribution of the income-tax. It is argued that according to the Niemeyer scheme, the provinces may never get their share of the income-tax, as their theoretical dues can only materialise if the Railways can make substantial contributions to the Central revenues. The proper course for Sir Otto

would have been to base the provincial claim on the general budgetary position of the Central Government, instead of on the increasing revenues from the Railways particularly when the control over Railways has been passed over to a Statutory Railway Board over which the Indian public men have practically no control. The reason which led Sir Otto to link up the provincial claim to a share in the income-tax revenue with the future of Railways is perhaps to be found in the fact that he wanted to force the Provincial Governments to exercise greater control over the development of Motor traffic in order to prevent Rail-road competition. This is, however, sheer impertinence. The Provincial Governments can hardly be called upon to take any positive action against the motor industry so long as no definite scheme of co-ordination of Rail-road traffic is adopted. Moreover, deficits in the Railway budget may and do occur for reasons quite different from cut-throat competition from lorries and buses. If Railways in India do not generally pull well, it is because of their inefficient and unbusiness-like management. One fails to understand why the British Indian provinces should suffer because of the bankruptcy of the foreign management of Indian Railways. One almost suspects that there is a ring of insincerity in Sir Otto's proposal as regards the ultimate transfer of a part of the Income-tax revenue to the Provinces: the conditions attached are so very stringent that they are hardly likely to be fulfilled.

Public Expenditure in India.

The principal heads of Public Expenditure in India

are Defence, General Administration, and the maintenance of the Nation-building Departments. Defence includes the cost of maintaining the Indian Army, the Royal Indian Navy, the Royal Indian Air Force, forts, harbours and strategic roads and Railways, and the cost of military operations. Under General Administration we include the expenditure on Police, Jails, Courts of Justice, expenses of the legislative machinery, the salary, furlough, pensions etc. of the entire staff employed in the Civil administration, and the cost of foreign political representation, e.g. the establishment of the India High Commissioner in London.

Expenditure on account of National Development includes expenses on education, various types of scientific researches, Public works like Railways, Posts and Telegraphs, Roads, buildings, irrigation, medical and sanitation charges.

Lastly, we might refer to interest on Public Debts whether raised for productive or unproductive purposes.

A salient characteristic of Indian public expenditure is its gradual and almost unceasing growth from decade to decade, though since the beginning of the economic depression, there has been some set-back to this growth. This is, however, by no means peculiar to India, inasmuch-as with the abandonment of the 19th century laissez faire philosophy, the state everywhere has widened out the scope of its activities. The really significant and tragic thing for India lies, however, not in the fact of increased expenditure as such, but in its nature. A mere glance at the statistics of Indian public expenditure, however,

reveals to us how utterly unlike has our development been in this regard compared to most other advanced countries of the world. Defence, Public administration and the so-called services of the Public Debt account for over 80% of our total ~~expenditure, so that~~ the nation-building departments have been virtually kept on a perpetually slimming diet. This unhealthy bias of our public expenditure is almost entirely due to the nature of the foreign bureaucratic administrative machinery of which we have been the unfortunate victims for nearly two centuries. While other countries spend a large proportion of their total national income on military account only when there is an actual war or war preparation, India has been spending lavishly on her so-called Defence even when there was no single speck of cloud darkening the international political horizon. The reason is, it is alleged, that the British Government has thought it fit to maintain a huge and costly army in India, almost wholly British in its personnel as far as the officers' cadre is concerned, out of the revenues of India for pure and simple Imperialistic purposes. The famous Indian publicist, Mr. Gokhale, pointed out long ago that the British policy towards the Indian army has been radically altered since the days of the Sepoy Mutiny. In the pre-Mutiny days, Britain used to entrust more and more Indians with higher posts in the Indian army. After the Mutiny, however, Britain almost radically revised her policy. Indians could be admitted into the Army only for swelling the quantity of fodder for the enemy's guns, but they could hardly aspire to higher and controlling posts. This

Europeanisation of the officers' posts in the Army List has not only materially increased the cost of the Indian Defence. It has also served to increase the dependence of Indians upon the military strength of the British people. Public opinion in India has incessantly clamoured for the rapid Indianisation of the Defence Forces not only for political reasons but also for sheer financial reasons. A British soldier costs many times more than an Indian sepoy. And if we come to consider the emoluments of the Army officers, the charge of extravagance becomes too patent for any one to refute. Britain, however, has consistently refused to comply with the Indian demand for rapid Indianisation except in a very niggardly and almost negligible manner. The reason put forward has naturally been the alleged unfitness of Indians for high military posts. Yet the world knows how bravely the Indian soldier acquitted himself during the last Great war in the face of murderous enemy's guns. The real reason, therefore, seems to be the apprehension, not altogether unnatural, that once India learns how to defend herself, British rule in India must necessarily come to an end. As Mahatma Gandhi observed in the Round Table Conference, the Army in India is an Army of occupation. If so, at least fairness demands that the cost of the Army should be largely met out of the British Imperial exchequer. We can not be asked to pay for our own enslavement and demoralization. Moreover, it is a well-known fact that the British Government has in the past almost unblushingly utilised the Indian army for purely Imperial purposes. Certainly, there was no Indian

interest involved in the Abyssinian campaign of Signor Mussolini or in the Japanese invasion of China. Yet a contingent of the Indian Army was sent to those places for safe-guarding legitimate interests. The forward frontier policy of the Government of India has again involved huge expenditure from time to time. Yet, as Indian publicists like Gandhiji and Pandit Nehru have observed again and again, the correct solution of the frontier problem certainly lies not in the periodical bombardment of undefended frontier villages inhabited by women and children, but in the opening out of proper avenues of useful employment for the intrepid Pathans. You can not civilize any one by bombs and machine-guns. You can only make him more savage. Above all, the saddest thing about the so-called Indian Defence expenditure is that inspite of our huge expense, India is to-day so tragically defenceless, particularly against any aerial bombardment of big cities like Calcutta, Bombay, Karachi etc. Thanks to the unparalleled weakness displayed by the Western Democracies, particularly by Great Britain, the position of India has become in a strategic sense highly dangerous. The Japanese Army has already established its outposts on the borders of Tibet, Nepal, Burma and French Indo-China. The Singapore base may easily be hood-winked in case of a Japanese land invasion of Burma and India. Moreover, in the event of a general world war breaking out, the British Navy stationed in the Far Eastern waters may be recalled to defend British interests nearer Home, in which case the Japanese Navy may, without encountering much opposition,

easily complete the capture of India. The only correct solution of our defence problem seems to lie in the rapid Indianisation of the Indian Defence Forces, the introduction of compulsory military training, the building up of a strong Indian Navy and Indian Air force which may never be requisitioned for Imperial purposes, the construction of Anti-air raid defence works, and a systematic co-ordination between the industrial and the military system. All this, of course, assumes a complete reversal of the policy of suspicion add distrust which the British Government has so far adopted towards Indians. Will Britain succeed in rising up to the height of statesmanship and recognise the vital necessity of radically revising her national attitude towards Indian aspirations in the face of a hostile world which becomes more and more menacing every day? Is it too much to expect that Mr. Neville Chamberlain's policy of appeasement will not be blindly reserved for Berlin and Rome alone where the response so far has been anything but encouraging and that the British Prime Minister will learn in British Imperial interests to clasp the hand of genuine peace and co-operation held out by India inspite of her many tortures instead of trying in vain to placate the determined gun-men of Rome and Berlin who demand surrender and not peace? It is perhaps not an exaggeration to say that upon the nature of the British reply to the above query depends not only the future of Indo-British relations but the existence of the British Empire itself.

Civil Administration.

Coming next to the expenditure under the head of civil administration, here too we are shocked at the extravagance of the Government. Although India is one of the poorest countries in the world, her administrative system is perhaps the costliest. Our Governor General's salary and other emoluments are far greater than the remuneration of the British Prime Minister and that of the American President. Again the so-called superior services staffed mostly by Britishers are perhaps the most highly paid services in the world. The British Government, like other Imperial Governments in the world, has naturally thought it fit to enrich educated British youths and incidentally to keep the administrative system in India predominantly in British hands, by spending lavishly on them out of India's poor exchequer. The argument of efficiency is hardly convincing, as Congress Ministers are discharging their duties with the ulmost efficiency possible on a salary of Rs. 500 p. m. only, although their assistant secretaries may be drawing more than double their income. Here too Indianisation of all the services is the only remedy. But that too is an eminently political question.

Expenditure for National Development.

We have already observed how after meeting the heavy expenses on acount of the so-called defence and civil administration, very little resources are left for national development. Ninety per cent of the people are still

illiterate, while the heavy toll of preventible diseases like malaria, kalazar, etc. bears an unmistakeable testimony to the utter paucity of medical and sanitary facilities in India. Thus by all rational standard, India is still a very backward country after more than a hundred and fifty years of British rule, although the British people claim to have a civilizing mission in India. As Mr. H. G. Wells has observed in his "Outlines of History," even a medieval despot like Akbar took a more enlightened view as regards his duties towards his subjects than the British rulers in India have done in an incomparably more enlightened age. The excuse of financial stringency is hardly convincing against the back ground of insensate extravagance whenever British interests and the so-called British prestige are involved. The splendour of New Delhi, the magnificence of Viceregal parties and the fat emoluments attached to all sorts of high posts, a goodly number of them being little better than sinecure appointments, all these and many things else hardly fit in with the plea that it is the financial factor which is primarily responsible for the virtual starvation of our nation-building services. The real reason seems to be that our foreign rulers have never thought it to be their duty to develop us morally, though we admit some amount of material development has taken place primarily in the interests of the foreigners themselves.

The Public Debt of India.

The origin of the Public Debt of India dates back to the manifold wars of the East India Company mostly waged in a spirit of Imperialistic aggression or of sheet

vandalism against several Indian potentates and neighbouring states like Afghanistan, Nepal, Burma etc. When the British Parliament took the reins of Government from the East India Company, it inherited not only the territories and other rights of the Company but also its debts. Needless to say, all these debts were *unproductive*. They were, however, charged against the revenues of India. These debts amounted to £ 59½ millions just before the Sepoy Mutiny. The expenses due to the Mutiny raised up the amount of unproductive public debt to the figure of £ 100 millions.

Since 1867, however, when constructive public works like Railways, Irrigation etc. came to be built, a new type of public debt, known as *productive* public debt, came into existence. According to the recommendation of the Select Committee of 1878, ordinary revenue surpluses were used not for the cancellation of old unproductive debts but for the construction of productive public assets. In this way the volume of unproductive debts came to be *reduced* by the *creation* of fresh public assets which being created out of *revenue* rather than loans could be easily assigned against a portion of the old unproductive debts. By this process the volume of India's unproductive debt was reduced to the low figure of Rs. 3·1 crores by March 1916. The policy of wiping out India's unproductive debts out of ordinary revenue surpluses was strongly criticized by Mr. Gokhale who observed that in view of the comparatively small amount of our unproductive debts, the government should not have been so over-anxious to liquidate them, particularly when the peoples'

interest required tax-reduction in many respects and greater expenditure on education, health etc.' Advanced public opinion to-day goes even much farther than Mr. Gokhale's views. Mahatma Gandhi, for instance, declared in the Round Table Conference that India can not assume any responsibility for any public debt increased by the Government of India, unless it is proved on examination to have been incurred demonstrably in the legitimate interests of the Indian people. Certainly, we can not in justice be asked to pay for debts incurred in British Imperial interests for satisfying British motives of aggression or simply the so-called British prestige and vandalism.

Before the War, Indian public debt was raised almost exclusively in Great Britain. The explanation offered was the relatively low rate of interest and abundance of funds in London, which was then the world's monetary centre. No attempt, however, was made to find out the possibilities of the Indian money market. The Great war, however, served as a great eye-opener to the Government in this respect. The London money market being fully taxed by the demands made by His Majesty's Government, the Government of India had no other option but to attempt to raise loans in India in order to raise India's war contributions of £100 to the British Government. The exigencies of the war, the construction of New Delhi and the post-war era of successive deficits in the central budget,—all these raised up the volume of India's unproductive public debts to the high figure of Rs. 257·70 crores on March, 1924.

Since the War, the Government of India has done most of its borrowings in India, encouraged by the great response it received during the war. The War also revealed the popularity of Government cash certificates and Treasury Bills for raising Government loans. The post offices with their numerous branches in the remotest parts of the country also played a very prominent part in attracting all types of investors. In the early post-war years Treasury Bills were generally redeemed by the flotation of new Bills, until the Government resorted to the policy of raising long-term loans for extinguishing the bills altogether. Since 1930, however, Treasury bills have again become prominent in the Government's loan finance. The issue of Treasury bills has benefited not only the Government but also the commercial banks which have thereby got an opportunity for investing their surplus funds for short periods. At present, the issue of Treasury bills is regulated by the Reserve Bank of India in the interest of a controlled credit policy.

India's public debt today consists of both sterling loan (*i.e.* loans raised in England in terms of sterling and repayable in sterling) and rupee loans. These two categories of loans, however, by no means coincide with the nationality of investors in them. Though the bulk of the rupee loans are subscribed to by Indian investors, a part of them is held by Britishers. Considered from the point of view of the nationality of the investor, the bulk of our public loans is held by non-Indians. Both from the political and economic points of view, this state of affairs is hardly desirable, as British investors in Indian Govern-

ment loans invariably clamour for safeguards whenever the question of settling India's political destiny arises.

Debt redemption.

Lastly, we come to the problem of our debt redemption. We have already seen how before the War the volume of our unproductive debts was sought to be reduced by the construction of productive assets out of revenue surpluses instead of by fresh borrowing. As regards the debt incurred due to the purchase of Railways, the method of liquidation was the compulsory obligation of paying railway annuities covering both the principal and the interest out of ordinary revenues.

In connection with the War loan of 5 per cent, a sinking fund was established. The Government undertook to set apart $1\frac{1}{2}$ per cent of the loan for the purchase and cancellation of the loan securities so long as their market price was below the issue price. Besides, the Government have also been providing an additional annual sum of £500,000 to meet India's liability regarding the unpaid portion of India's war contribution.

So far, however, no systematic plan was laid down for the redemption of India's public debt. In 1924, however, Sir Basil Blacklett formulated a debt redemption scheme which was placed before and accepted by the Indian Legislative assembly. According to this scheme, for a period of five years in the first instance, Rs. 4 crores plus $\frac{1}{80}$th of the excess of the debt outstanding at the close of each year over the debt outstanding on 31st March 1924, were to be set apart from the

annual revenues for the reduction or avoidance of public debt. Sir Basil particularly stressed the need for devoting that amount to the construction of productive public works rather than to the cancellation of old debts. Since 1930, also, provision has been made for meeting the Government's liability, in respect of cash certificates. Since 1933-4, however, in view of the absence of the contribution from the Railways to the general revenues, the debt redemption scheme of 1924 has been virtually suspended, a lump sum of Rs. 3 crores only, being set apart for the purpose of reduction or avoidance of debt.

Local finance.

The income of the different types of local self-governing bodies in India is derived principally from the following sources ;—

(1) Taxes on trade such as octroi duties, terminal taxes, bills etc.

(2) Taxes on property *e.g.* municipal rates on houses and cities in the case of municipalities and cesses on land in the case of rural bodies.

(3) Taxes on persons and circumstances *e.g.* license tax on profession, trade and callings.

(4) Fees and licenses *e.g.* scavenging fees, licenses for music and other entertainments, vehicles, dogs and other animals. There are also license fees for offensive and dangerous trades.

Some of the municipal taxes such as octroi and terminal taxes are highly questionable in character. They are generally regressive in their incidence and are sure to ob-

struct trade. Rural bodies also charge tolls on roads and ferries. Most of the municipalities also charge a water rate, and a lighting rate. A part of the municipal revenue also comes from municipal property, *e.g.* municipal markets. Lastly, there are grants-in-aid to local bodies from the Government for specific purposes.

The principal heads of municipal expenditure are as follows :—Public health, education, roads and other public works.

The central fact that strikes us in the sphere of local finance is its utter inadequacy, having regard to the needs of our local bodies. Not to speak of rural bodies, like Panchayets, Union Boards and District Boards, most of our 789 municipalities are very poorly equipped with financial resources. Bombay and Calcutta alone are comparatively well-to-do with their incomes over Rs. 3 crores and Rs. $2\frac{1}{4}$ crores respectively. But even these fortunate municipalities bear no comparison with their European counterparts. For instance, Glasgow whose population roughly equals that of Calcutta, has an income twelve times as much.

The causes of inadequacy of resources are easily understood. In the first place, the taxable capacity of our people is very low owing to their low *per capita* income and the relatively large average size of our families. Secondly, some important resources of revenue *e.g.* land revenue, which in other countries is assigned to local bodies are included in our country in the general revenues of the Government. Another important reason is to be found in the fact that the size of some of our local bodies *e.g.* Dis-

trict and Union boards, is so big that the personal touch between the tax-payer and the local authority can not be maintained. The result is that tax-payers are unwilling to submit to higher rates even though they are likely to be benefited by increased local expenditure on useful objects. Above all, we must remember that in India since the extension of the old village Panchayets, local bodies have been established from the above by a process of devolution instead of springing up from below by natural forces. Naturally therefore, the Indian people have not yet learnt to regard their local self-governing institutions in the proper and right perspective.

The Taxation Inquiry Committee made various suggestions for the improvement of local resources, which may be briefly summarised as follows :—

(*a*) Conversion of the capitation and chowkidari taxes into sources of local revenue.

(*b*) Standardisation of land revenue at a low rate so as to permit a substantial increase in the existing cess on land.

(*c*) Giving local bodies a share of the proceeds from ground-rate and of the increased income from the rates on non-agricultural land.

(*d*) Authorising municipalities to tax advertisements, betting and entertainments.

(*e*) Reducing the import duty on motor cars and authorising the Provincial Governments to levy a provincial tax the proceeds of which are to be distributed among the local bodies.

(*f*) Authorising local bodies to levy a fee for the registration of marriages.

(*g*) Increased grants-in-aid to local bodies for conducting services of national importance.

We may also mention that local bodies in India should follow the Prussian model and conduct municipal enterprises like municipal tramways, municipal buses, gas, electricity, theatres. inns, dairies, bakeries, mills, factories, etc. In short, we can easily and profitably experiment with municipal socialism, before we can embark on provincial or National Socialism. This will not only serve the Socialistic purpose of better distribution, but also help to equip our local bodies with much needed resources.

Provincial finance and the Congress Government.

Before concluding this chapter, it may not be inappropriate to write a few lines on the financial bearings of certain programmes which are followed by the Congress Governments in 8 out of 11 provinces. We have seen that under the New Constitution, the most important heads of provincial revenue are Land revenue, Excise, Stamp etc. Income-tax may afterwards become an important source of income, but for some time yet we may not attach much importance to it, having regard to the conditions laid down by Sir Otto Niemeyer.

Now in the Congress election pledges a substantial reduction in the land tax which is generally admitted to be very heavy forms an important item. As Land Revenue is the most important source of provincial revenue, the fulfilment of the Congress pledge involves a great reduction of the income from land tax. Where the

Zemindari system prevails whether partly or wholly, the Zeminder must be severely handicapped by the reduction in the land-tax. Elsewhere, however, and this is what really matters from the standpoint of Provincial finance, relief to the ryot can only be given at the expense of Provincial revenues. Similarly, the prohibition policy of the Congress Governments is likely in the near future to convert the Excise Department into a positive liability from its traditional position of the largest source of provincial revenue after the Land-tax. We say it will be a liability because it will be necessary to appoint an experienced staff for checking illicit distillation and smuggling from non-Congress provinces or the Native states. The revenue from judicial stamp will also be affected owing to the Congress policy of encouraging solution of disputes by arbitration boards like the Panchayets instead of by ordinary legal processes. Already in the U. P., a bill has been passed raising the value of judicial stamp with this end in view.

Thus we find that in the Congress provinces, the principal revenues of the state will be either curtailed or wiped out. On the other hand, the political programme of the Congress provincess requires increasing activities for national development. More money may be found for the nation-building services either by retrenchment or by increased revenue. As far as the former alternative is concerned, the Congress Ministers from the very beginning have reduced their own salaries to Rs. 500 p. m., not because there is any particular sanctity about that figure, but as an earnest of their general desire to reduce

drastically the whole cost of the administration. But the Governments have not the power under the Act to carry out retrenchment in quarters where retrenchment is most badly necessary and where it can bear most of its fruits, namely as regards the Imperial services and the establishment cost of Governors. There is, however, some room for retrenchment in the sphere of the Provincial services. In particular, the present invidious distinction between the so-called Provincial and Junior Provincial services may and should be wiped out. But the salary scale of Junior branch of the Provincial services can not be reduced without affecting efficiency and without creating loop-holes for corruption. The Wardha scheme of education which wants to make primary education of a somewhat interesting and certainly much more useful type than the orthodox form of primary education, compulsory in the province as a whole and at the same self-supporting, is a very ingenious device in that the tainted revenue from Excise is no longer necessary to pay for education. Under the Wardha scheme, University education also ceases to be a concern of the Government. It is to be financed by public donations. The success of the Wardha scheme, however, vitally depends upon the degree of public enthusiasm and support which it may enjoy not temporarily but permanently.

Nevertheless, the more far-reaching and more expensive programmes of nation-making will require increasing revenue which can only be found by increased grant from the Central Government or by new taxation. But the central Government can hardly spare any further money

unless the military expenditure or the cost of the administration is drastically reduced. This again involves the whole question of Imperial vested interests, a question which can hardly be solved unless India gains the substance of independence. As regards fresh taxation, the taxation of agricultural income has already been resorted to in some Congress provinces such as Bihar. But it is clear that this form of taxation can only bear fruit where there are large Zeminders or Talukdars and not many Congress provinces can 'boast' of either. Sales-tax is another alternative possibility but unless it is carefully devised, it will be a regressive form of taxation hardly in keeping with the spirit of the Congress administration. Inheritance-tax has some scope, but it will take some time before a comprehensive proposal for such a tax can be framed, having regard to the variety of the laws of succession prevailing in the country. Money may also be found by loans for productive public utility concerns, but loans too may not be raised except with the approval of the Government of India whenever a province may have a previous debt to the Central Government. Thus the path is full of bristles and obstacles. We submit that the Congress Government will not succeed in fulfilling their far-reaching pledges to the electorate unless the present scheme of federal finance is radically revised and unless the whole tone of the administration both at the centre and in the provinces is radically altered,—a consummation which can hardly take place without another determined non-violent struggle between the nationalist and the Imperialist forces in the country or a voluntary change of heart on the part of our rulers.

CHAPTER XXIII

UNEMPLOYMENT.

Unemployment in the Western sense largely means the involuntary unemployment of industrial labourers, both skilled and unskilled, which has assumed increasingly serious proportions under the present regime of private capitalism. There are various types of unemployment. First, there is an irreducible minimum of perpetually unemployed people, variously estimated at 2 to 3% of the entire working class people; men who are unemployed because they are or have become unemployable owing to their lack of adaptability to changing industrial methods. Secondly, there is a type of unemployment due to lack of mobility of labour as between different places and occupations owing to the barriers of ignorance, costs of training, local sentiments and prejudices and external hindrances. *Thirdly*, there is seasonal unemployment which is due to the seasonal nature of the demand for various types of labourers. *Lastly*, there is cyclical unemployment which characterises every economic depression.

In India, unemployment problem, though akin to its Western counterpart both in respect of its involuntary nature and in respect of the hardships it involves, is nevertheless quite distinct in that it is seldom associated with industrial employment. Our unemployment problem is primarily an agricultural one, although in recent years a

new variant, e.g., middle class' unemployment has been claiming an increasing degree of thought and attention. So far as industries are concerned, indeed the complaint is more about the scarcity of industrial labour than of lack of jobs for the labourers.

Rural Unemployment.

Rural unemployment is by no means a new phenomenon in India to-day. The precarious nature of Indian agriculture, the time-honoured premier industry of rural India, owing to its dependence upon the caprices of the Monsoon, exposed India in the past to the dangers of devastating famines from time to time, centuries before the British power secured its firm footing on the Indian soil. We therefore, dismiss at once the false notion circulated sometimes by patriotic Indians that somehow the British Government has introduced famines into India. In fact, if historical records have any value, they tell us that famines in pre-British days, sometimes caused much greater hardships than famines in the 19th century which excited so much public indignation and public criticisms. While, however, we, thoroughly dissociate ourselves from the charge that Britain inoculated us with the terrible virus of famine, we can not help observing that in the 19th century an enlightened administration had much greater opportunities for mitigating the horrors of famine than any benevolent administration in the pre-Railway epochs. We must also submit further that the British connexion with India, involving as it did, the destruction of our once flourishing cottage industries before our industries could

be developed along modern lines, certainly served to reduce the staying power of the rural masses at the time when the very nature of famine was transformed from a famine of food to a famine of money. In the medieval epochs, famine was due to unavoidable physical causes and it was by no means confined to India. In the second half of the 19th century, however, when considerable development of Railways took place in India, and India was linked with the whole world by steam transport agencies, famine could only indicate a lack of purchasing power on the part of the rural masses. The British administration in India may, therefore, be naturally blamed if it could be proved to have been responsible for the abysmal poverty of our masses by reason of its acts of omission or commission.

The economic effects of famines.

Famines, whenever they have occurred, have naturally carried in their train great and sometimes unspeakable hardships, not always confined to the agricultural classes. Starvation leading to deaths, increase of theft and burglary, the emergence of a vagrant population, decay and large scale destruction of cattle power,—these were the usual direct concomitants of famine out-breaks. Besides, the lack of purchasing power of the masses invariably affected the incomes of the manufacturing and trading classes and ultimately the earnings of the professional classes. While the failure of the local harvest helped to raise up the prices of food stuffs and other commodities, the people experienced a great shrinkage of their money-incomes.

Thus all except the possessing classes, suffered, more or less, whenever famines broke out. Nor did the Government enjoy any immunity from the devastating effects of famines. The Government revenue on all accounts showed huge deficits, while the Government's expenditure was bound to increase both on account of famine relief work and on account of additional expenses for combating crimes. Thus famines have closely resembled a general nervous break-down of India's economic life.

History of famine relief.

In the Pre-British days there did not and, we might add, there could not exist any organised system of famine relief. The virtual inaccessibility of the interior regions rendered impossible any contemplated state intervention for affording genuine famine relief. People, therefore, had to shift for themselves in case there was any failure of the harvest in any particular year. As a matter of fact, in those days almost every village had its granary wherein was stored sufficient amount of food-grains which people could fall back upon in times of emergency. It was only when the harvest failed for several successive years that starvation, servitude, and even cannibalism became inevitable. The Indian rulers of those days, particularly those of them who were benevolently disposed, tried to give whatever relief they could by compulsorily forcing down the prices of food-stuffs, and by various public works which in some cases involved the building and demolition and then building again of mosques and other public buildings. It is interesting to note that the last-mentioned

activity of our medieval despotic potentates, has received the enthusiastic support of a very eminent modern economist like Mr. Keynes. In his "General Treatise on Unemployment", for instance, we find the following memorable sentences! "If the Treasury were to fill old bottles with bank-notes, bury them at suitable depths in dis-used coal-mines which are then filled up to the surface with town rubbish, and leave it to private enterprise on well-tried principles of laissez-faire to dig the notes up again (the right to do so being obtained, of course, by tendering for leases of the note-bearing territory), there need be no more unemployment and, with the help of the repercussions the real income of the community, and its capital wealth also, would probably become a good deal greater than it actually is."

Coming down to the British period, in the early days of the British rule, naturally enough the East India Company which was a dividend-earning concern could not think of any systematic plan for mitigating famines, which by its very nature would involve some expense and therefore lessen the dividends. Even after the assumption of direct responsibility for the Indian administration by the Crown, the Government remained a helpless spectator of a series of devastating famines which occurred from 1860 onwards. The horrors of the Orissa famine of 1861, however, at last moved the Government to declare its determination to save human life at any cost, and in the subsequent Bihar famine of 1873 the Government almost erred on the side of indiscriminate charity. The great South India famine of 1876-8, however, which involved a mortality of 52 lakhs,

led the Government to appoint the first famine Commission presided over by Sir Ricard Strachey. The Commission recommended the institution of a famine Insurance grant of Rs. 1½ crores annually to be provided out of current revenues. This sum of money was to be spent on direct famine relief in case there was an actual outbreak of famine, or on the construction of public works of a protective nature like Railways, Irrigation etc., if the year was a normal one. Besides, the principles of famine relief were clearly laid down in famine codes for every province, Two more Famine Commissions were subsequently set up which recommended certain amendments to the Famine codes as well as certain other measures like the setting up of co-operative credit societies, the enlistment of non-official support for the purpose of famine relief etc.

The Famine Insurance Fund.

As we have already seen the Famine Insurance Grant amounting to Rs. 1½ crores annually became a permanent item of the central budget since 1878 following the recommendation of the first Famine Commission. This fund was originally allotted to the different provinces according to their needs by the Government of India. Later on, however, Famine Insurance became a divided head of expenditure between the Central and the Provincial Governments, one-third being contributed by the Provincial Governments and two-thirds by the Central Government. The Provincial quota was fixed according to the liability of every province to famine attack. The famine fund was spent on actual relief work, construction of pro-

tective works and loans given to cultivators. The unspent portion of the grant formed a part of the central balances on which the Government of India paid interest.

Since 1928-9, however, the constitution of the Famine Insurance Fund has been radically altered. It has ceased to be an Insurance Fund. Instead, it has become a Relief fund. It can be spent normally only on famine relief proper. It is no longer available for giving loans to cultivators directly.

Actual process of famine relief.

The machinery of famine relief is fairly elaborate. There is, in the first place, an elaborate arrangement for detecting the first signs of a famine outbreak. The Meteorological Department collects all types of data bearing upon the weather conditions in the different parts of the country. Watch is also kept over the appearance of locusts, the increase of theft, burglary, vagrancy, large-scale movement of cattle, the drying up of wells and tanks etc. As soon as famine conditions are apprehended, meetings are held in which non-official help is enlisted. Suspension of the land-revenue is declared and loans are offered for agricultural improvements. If these preliminary steps do not prove to be adequate, test works are opened providing employment to those who seek employment. The purpose of these test works is to ascertain the number of those who are actually unemployed due to famine conditions. Afterwards, poor houses are opened in which gratuitous relief is given to the infirm and the aged. Great care is taken to prevent the outbreak of epidemics like cholera

particularly towards the close of the famine period. At last, when the rains set in, relief camps are closed, people are transferred to their villages where smaller relief works are opened until normal agricultural conditions are restored.

Inspite of the above elaborate arrangement for the work of famine relief, however, the distress of the affected people knows no bounds in all abnormal years. The official relief is almost invariably inadequate and slow. Hence it becomes necessary for benevolent social institutions like the Ramkrishna Mission, or for political organizations like the Indian National Congress to join the general crusade against mass privations brought about by natural calamities.

The above remedy, it must be confessed, fails to go to the root of the matter. It is highly preposterous that the teeming masses of India should be kept perpetually is such a state of utter bankruptcy that a single failure of the harvest should mean their utter starvation, death and demoralization. It is highly imperative that the state should adopt and pursue a comprehensive plan of rural reconstruction aimed at a radical transformation of the economic position of the ryots. In the absence of such heroic remedy, the popularisation of the Charka cult and the resuscitation of other cottage industries would go a fairly long way towards the financial betterment of the Indian peasantry. The latter remedy is particularly useful for curing the seasonal unemployment of the Indian ryot who is generally without an occupation from 5 to 9 months in the whole year. In any case, the shadow of

famine over our country-side must be lifted once for all with the utmost possible speed, if India is to be lifted out of barbarous medieval economic conditions.

Middle class unemployment.

Unemployment among the so-called educated middle class people has in recent years assumed increasingly alarming proportions and has also attracted a great deal of public attention. Committees were set up by several Provincial legislatures (Madras, Bihar, the U. P., the Punjab among others) to examine the whole problem and to suggest remedies. All the committees agree that the problem is a very serious one indeed. Thus the problem of middle class unemployment is an All-India problem and as such it can be solved only by means of comprehensive All-India efforts.

The term "middle class" includes those people who are not sufficiently well-to-do to do without earning, who have received some amount of literary education, and who are averse to manual employments as such.

Causes of unemployment.

The principal cause of middle-class unemployment, it is alleged, is the general economic backwardness of the country. The industrial development of the country is highly inadequate and as such there is no sufficient scope for the industrial employment of educated youths. This is the greatest single cause of middle-class unemployment in India. It has been observed that whereas in England there are altogether 16.000 distinct avocations open to the

educated section of the public, in India there are only 40. There can be no doubt that with the rapid economic transformation of the country, the problem of middle-class unemployment will lose much of its present baffling seriousness.

Secondly, the educational system of the country has also come in for very severe criticisms. It has been said that the present educational system in India gives an undue literary bias to the training of our youths. The result is that our young men are only qualified for various Government services, clerical jobs in the commercial firms, and the professions of law, medicine, and teaching. Unfortunately, however, the demand for qualified people in these employments does not increase at all proportionately to the supply. The result is that an increasing number of educated young men find it impossible to secure a job or a living.

There is certainly a large element of truth in this charge. Our present educational system was evolved at a time when there was a genuine lack of qualified people for various Government and mercantile jobs. To-day, however, the situation has been vastly altered. It is, therefore, imperative that our educational system should be drastically changed if we are to prevent the unspeakable tragedy of unemployment, privations, and demoralization on the part of an ever-increasing army of matriculates, graduates and even post-graduates. The Wardha scheme of education which seeks to confine university education only to a small section of the educated people,

who are specially qualified for profiting by higher education, deserves great commendation from this point of view.

At the same time, however, we must remember that mere opening of vocational training courses on a large scale can hardly be useful, unless there is a genuine increase in the demand for men possesing technical qualifications.

Thirdly, the social system of India has also been held to be partly responsible for our middle-class unemployment. Early marriage, joint-family, the caste system,—all these have been mentioned as aggravating factors. Due to early marriage, our young men not only receive inadequate training. They are also burdened with heavy and almost paralyzing responsibilities which serve only to deepen their mental depression and to discourage boldness and enterprise. Similarly, the caste system precludes young people from resorting to various occupations which offend their caste prejudices. The joint-family similarly encourages parasitism, conservatism, and lack of mobility.

Lastly, the general economic disorder in the world as a whole resulting in world-wide unemployment and economic depression is also held to be not without significance from the point of view of Indian unemployment. After all, India is an integral part of the world. If there is economic depression abroad, our export industry must suffer resulting in unemployment in the export trades which must affect the other trades and occupations according to the theory of the Multiplier.

Conclusions.

The causes of our Middle-class unemployment also suggest the remedy. In fact, there is no permanent remedy of unemployment in the capitatistic economic system. But unemployment among the educated people may be greatly lessened if only a well-conceived concerted policy is followed. We whole-heartedly endorse a suggestion from the Government of India that there should be a statistical estimate of the total quantity of employment which the Government, other public bodies, Commercial firms, educational institutions and the so-called learned professians may offer. Once we get an approximate idea of the volume of available employment, the supply of qualified men may be regulated in such a manner as to equate the supply with the demand. Unless some such statistics are compiled, it is difficult to avoid middle-class unemployment. Care, however, should be taken to estimate the possible increase in demand due to the prospective economic development of the country. Complete Indianisation of the services as well as national control over all commercial and banking institutions in the country may also increase employment for our educated young men. There should be unemployment Bureaux in the country whose business should be to supply adequate information about employments in different firms and institutions. It is gratifying to note that several universities including the Calcutta University have already established University unemployment Bureaux for the benefit of University students. These

Bureaux keep touch with the different Commercial firms, both Indian and European. It is desirable, however, that selection in all cases should be made by competitive examinations rather than by the so-called Interviews which give so much scope for corruption and favouritism.

But the most fundamental remedy lies in the widening of the outlook of the educated people. Agriculture and other so-called manual occupations must absorb an increasing number of the so-called Bradralokh youths. People should fully realise the principle of the dignity of labour and act accordingly. Doctors must learn to reside in the villages where they may easily secure a living and at the same time fulfil a crying need, instead of rotting in the big towns and cities where the practice is monopolised by a fortunate few. Teachers must look upon themselves as crusaders against the forces of darkness and ignorance in our benighted villages, instead of vainly searching for jobs in urban schools. And above all, the educational system should be radically revised in order to reduce the number of degree-holders for whom there is hardly any avenue for useful service.